

263-0127/42

PD-AAI-339

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

MID-EGYPT
PROVINCIAL CITIES DEVELOPMENT
(263-0127)
PROJECT PAPER

UNCLASSIFIED

AUG 28 3 55 PM '81

AUG 27 1981

EXECUTIVE SECRETARIAL

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU : ES

THRU : A-AA/PPC, Mr. Larry Smucker *LS*

FROM : AA/NE, Alfred D. White, Acting *White*

SUBJECT: Authorization of \$75 million to USAID/Egypt for the Provincial Cities Development Project (263-0127)

Problem: Your approval is required to authorize a grant for \$75,000,000 in life of project costs to the Government of Egypt for the Provincial Cities project (263-0127). The project improves and expands the institutional capacity of the Governorates and cities of Menia, Beni Suef and Fayoum to identify, plan for, budget, finance, design, construct, and maintain urban infrastructure and services.

Discussion: The project supports the Government of Egypt's policy objective of economic and administrative decentralization fostering growth poles and a more effective urbanization process at the secondary city level. The decentralization policy is based on the assumption that increased local government responsibility for development activities will result in a more equitable, self-sustaining, and a more efficient development process relevant to both national and local interests. In the context of this project the financial and institutional capability of local government units will be expanded as a result of experience gained in the allocation and utilization of resources to carry out local urban development programs. This experience will be guided by training and technical assistance in the identification and execution of urban infrastructure projects, and in the conversion of local resources into funds for their maintenance and operation, that meet the felt needs of these cities primarily low-income residents. In supporting the execution of these tasks at the local level, the project seeks to slow the growth of national bureaucracy in the name of local development.

Programs in urban infrastructure services have been identified by each city and by the project design consultants as having the highest, initial priority. Therefore, the project will concentrate on developing the water, sewer and street systems of the three cities. The project allocates \$20,000,000 per city, out of the total \$75,000,000 for capital expenditures in this domain. Technical assistance is budgeted at \$10,000,000, and \$15,000,000 is earmarked for yet-to-be-identified future subprojects and contingencies.

The project paper for this \$75,000,000 grant was reviewed and approved by the Near East Advisory Committee (N.E.A.C.), on August 6, 1981. To the grant

authorization the N.E.A.C. added both a Condition Precedent and a Covenant ensuring that maintenance and recurrent operating costs for infrastructure funded under the project would come to be assumed by the Government of Egypt. The appropriate congressional committees were notified of A.I.D.'s intention to make this grant to the Government of Egypt and no objections were received during the waiting period that ended August 27, 1981. There are no human rights issues under Section 502B of the Foreign Assistance Act which would preclude provision of this assistance.

The project paper is attached for your information.

Recommendation: That you approve the \$75,000,000 grant by signing the attached project authorization.

Attachments:

1. Project Authorization (263-0127)
2. Environmental Determination
3. Procurement Source Waiver for local cost funding of commodities
4. Provincial Cities (263-0127) Project Paper
 - *Addendum to Action Memorandum

Clearances:

| | | | |
|-------------------------|------------------|------|----------------|
| NE/TECH, LPreade | <u>LR</u> | Date | <u>8/26/81</u> |
| NE/EI/E, GGower | <u>LL</u> | Date | <u>8/26/81</u> |
| NE/DP, BLangmaid | <u>BL</u> | Date | <u>8/26/81</u> |
| GC/NE, TCarter | <u>TC</u> | Date | <u>8/26/81</u> |
| GC, JBolton | <u>JRB</u> | Date | <u>8/27/81</u> |
| DAA/NE, AWhite | <u>A</u> | Date | <u>8-27-81</u> |
| AAA/PPC/PDPR, JEricksen | <u>JEricksen</u> | Date | <u>8-27-81</u> |

Addendum to Action Memorandum

During Project implementation, steps will be included to assure that each subproject will be preceded by adequate engineering design (including consideration of environmental factors) economic analysis and cost estimates.

UNITED STATES GOVERNMENT

Memorandum

TO : Near East Advisory Committee
THRU : NE/TECH, Mr. Lewis P. Reade *WR*
FROM : NE/TECH/SARD, Robert Mitchell *WR*
Project Review Committee
SUBJECT: Provincial Cities (263-0127) Proj.

DATE: July 30, 1981

The NEAC is scheduled to consider the attached PP and accompanying Issues Paper on Thursday, August 6 in Room 6439 (See Agenda)

Attachments: As stated

Distribution:

Project Review Committee

A/AID, Mr. M. P. McPherson
AA/NE, Ms. W. A. Ford
D-AA/NE, Mr. A. White
AA/NE, Mr. E. Vinson
NE/DP, Mr. B. Langmaid
NE/PD, Mr. S. Taubenblatt
NE/PD, Mr. R. Bell
NE/TECH, Mr. L. P. Reade
NE/TECH, Mr. A. Y. Wilburn
NE/TECH/SARD, Dr. P. Benedict
NE/PD, Mr. L. Rosenberg
NE/PD, Mr. S. Lintner
NE/PD, Mr. J. Habron
GC/NE, Mr. J. Kessler
NE/PD, Ms. G. Shivers
NE/EI, Mr. G. Kamens
NE/EI/E, Mr. G. Gower
PPC/WID, Ms. P. Goddard
CM/ROD/NE, Ms. K. Cunningham
SER/COM/NE, Mr. R. Looper
A-AA/S&T, Mr. C. Farrar
S&T/DIU/DI, Mr. B. Ashton
S&T/IT, Ms. L. Mogannam
NANEAP/PC, Mr. R. Taylor
OPTC/PC, Mr. J. Beuter
AAA/PPC/PDPR
PPC/PB
AA/S&T Designate Dr. N. C. Brady

NE/TECH/SARD, Mr. J. Lewis (Chairman)
NE/TECH/SARD, Mr. R. Mitchell
GC/NE, Mr. J. Kessler
S&T/UD, Mr. W. Miner
NE/PD/E, Mr. D. Painter
NE/EI/E, Mr. B. Porter
NE/DP/PR, Mr. S. Chernenkoff
NE/DP/E, Ms. E. Baldwin
NE/PD, Mr. L. Rosenberg



ISSUES PAPER

EGYPT: PROVINCIAL CITIES (263-0127) PROJECT PAPER

The PRC met on July 27 to review the Project Paper for Provincial Cities. In addition to three issues, the Committee also brings four other observations to the attention of the NEAC.

ISSUE 1. Should AID Provide Local Currency Funding for O&M Operations?

Discussion: AID will fund \$2.4 million equivalent in local currency for O&M work; the GOE will supply \$1.2 million equivalent (p.33). AID and GOE funding for O&M go up after the third year, rather than trail-off, but the 2.1 ratio is constant over the five-year LOP.

It would be possible to switch the \$2.4 million in U.S. contributions to capital costs and the GOE in turn switch its contributions from capital to O&M. The Mission, however, informs the PRC that there are two reasons for the present exception to Mission practice on O&M financing:

- (i) O&M refer primarily to rehabilitation, which the Egyptian budget system covers under Bab II. A sizeable but unknown portion of the present project will be for rehabilitation work--that is, for O&M.
- (ii) Providing local currency for Bab II expenses gives the Mission much greater control over the design and execution of planning and training activities to take place under this project.

No Recommendation: The PRC has no recommendation to make on local currency funding of O&M activities, but the committee feels this matter should be brought to the attention of the NEAC.

ISSUE 2: To What Degree Should the Project Require a GOE Commitment to Higher Tariffs and Financial Viability?

Discussion: The long-range systems planning for the water supply and sewage systems in the three cities will serve as the basis for detailed feasibility studies, including the technical, economic, social and financial elements of project design. At the present time, the PP does not provide any principle or statement as to the financial objectives to be attained in the structure and operation of the expanded utilities. It would appear appropriate that, consistent with the decentralization concept underlying the project goal, that the water supply and sewage systems be designed initially to provide a high degree of financial independence in meeting operating and maintenance expenditures; (plus debt service, if relevant) without necessitating central GOE budget allocations.

Recommendation: That the Project Agreement include a covenant by the GOE agreeing to the principle of financial viability briefly noted above. That the approval and financial participation by A.I.D. in the expansion subprojects be contingent upon the preparation of a staged program to generate revenue, primarily from tariff (user charges) agreeable to A.I.D. that is consistent with this financial objective.

ISSUE 3: What Provision Should the PP Provide to Assure Compliance with 611 (a) Requirements?

Discussion: The PP notes the weakness of both the municipalities and the governorates with regard to their abilities to conduct feasibility studies and formulate and execute different types of plans. In particular, it is not clear that the Governors have the capability to decide whether subproject proposals are good or bad. This weakness raises questions about whether the subproject activities will be developed in a way to meet 611 (a) requirements. 611 (a) requirements for program budget projects are met in several ways--for example, by clearly establishing subproject selection criteria (with specified economic, financial, technical, social, and administrative feasibility requirements), by project implementation procedures, or by assigning responsibilities to a competent intermediary institution. The American consultant is to perform some certification functions by helping contract for feasibility studies. But the first subprojects will be initiated before the arrival of the consultant and will not benefit from these studies and, again, there is no evidence from the PP that the Governors have the capability to assess the appropriateness and feasibility of subprojects.

Recommendation: The PRC discussed the advisability of requiring, through a covenant or CP, the development of subproject selection criteria acceptable to AID that the steering committee would use to certify the feasibility and appropriateness of subprojects (see comment 3 below regarding the steering committee). The PRC did not arrive at a recommendation on this matter, but felt it should be brought to the attention of the NEAC.

ADDITIONAL COMMENTS

Comment 1: Mission Management

Although the project will use FAR procedures, it appears there will still be a sizeable number of other contracts requiring the time of Mission management, contract officers, and legal staff. This work load is not an issue relating to the present project, but the PRC felt that the manpower implications of the project for the Mission warrants being brought to the attention of the NEAC.

Comment 2: Evaluation

The PRC reminds the Mission that the proposed evaluation should give attention to the project's purpose (capacity-building), that a scope of work for the evaluation is needed, and that the PP does not indicate how the evaluation

results will be used by USAID and the Steering Committee--that is, whether funds will be reallocated, whether guidelines will be changed, and whether there will be some redesign. The PRC felt that evaluation and the uses to which evaluation results will be put will serve as a "test" for the acceptance of T/A--that cities that fail to build their capacity will lose funds to the other cities that show more progress in utilizing their T/A.

Comment 3: Steering Committee

The PRC felt that the Mission needs to more clearly identify the policy coordination and certification responsibilities of the Steering Committee as well as the support services (and Secretariat) to be provided it.

Comment 4: Grant Application

The PRC reminds the Mission that the Grant Application is missing from the PP.

2. ENTRY/ENTITY
 EGYPT

3. PROJECT NUMBER
 263-0127

4. BUREAU/OFFICE
 NE 03

5. PROJECT TITLE (maximum 40 characters)
 PROVINCIAL CITIES DEVELOPMENT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)
 MM DD YY
 01 03 08 16

7. ESTIMATED DATE OF OBLIGATION
 (Under 'B.' below, enter 1, 2, 3, or 4)
 A. Initial FY 81 B. Quarter 4 C. Final FY 86

8. COSTS (\$000 OR EQUIVALENT \$1 = _____)

| A. FUNDING SOURCE | FIRST FY | | | LIFE OF PROJECT | | |
|------------------------|--------------|--------------|--------------|-----------------|--------------|---------------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| ADP Appropriated Total | 20000 | | 20000 | 75000 | | 75000 |
| (Grant) | (20000) | () | (20000) | (75000) | () | (75000) |
| (Loan) | () | () | () | () | () | () |
| Other U.S. | | | | | | |
| 1. _____ | | | | | | |
| 2. _____ | | | | | | |
| How: Country | | 25000 | 25000 | | 25000 | 25000 |
| Of: (Donor(s)) | | | | | | |
| TOTALS | 20000 | 25000 | 45000 | 75000 | 25000 | 100000 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH CODE | | D. OBLIGATIONS TO DATE | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|------------------|-------------------------|----------------------|---------|------------------------|---------|--------------------------------|---------|--------------------|--|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | | |
| (1) ESF | 720 | 720 | | | | 75000 | | 75000 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | | | 75000 | | 75000 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
 710 790 890

11. SECONDARY PURPOSE CODE
 723

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

| | | | | | | |
|-----------|----|-----|--|--|--|--|
| A. Code | BU | DEL | | | | |
| B. Amount | | | | | | |

13. PROJECT PURPOSE (maximum 400 characters)

To improve and expand the institutional capacity of three (3) Provincial Cities to identify, plan for, budget, finance, design, construct, and maintain urban infrastructure and services.

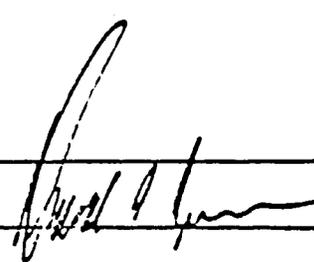
14. SCHEDULED EVALUATIONS

| | | | | |
|-------|-------|-------|-------|-------|
| Start | MM YY | MM YY | Final | MM YY |
| | 01 84 | 01 84 | | 08 86 |

15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify) _____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PI Amendment.)

17. APPROVED BY

Signature: 

Title: Director, USAID Cairo

Date Signed: MM DD YY
 7 14 81

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
 MM DD YY

ORGANIZATIONSABBREVIATIONS AND ACRONYMS

| | |
|------------------------------|--|
| A/GOSD | Alexandria General Org. for Sanitary Drainage |
| A.R.E. | Arab Republic of Egypt |
| CAPMAS | Central Agency for Public Mobilization and Statistics |
| DRPS/UAD | Development Resources & Program Support / Urban Administration and Development |
| GOE | Government of Egypt |
| GOHBPR | General Organization for Housing, Building, and Planning Research |
| GOSSD | General Organization for Sewerage and Sanitary |
| GOPW | General Organization for Potable Water |
| MOE | Ministry of Economy |
| MOF | Ministry of Finance |
| MODHLR | Ministry of Development, Housing and Land Reclamation |
| MOP | Ministry of Planning |
| NIB | National Investment Bank |
| NOPWWP (subject to revision) | National Organization for Potable Water and Waste Water Projects |
| ODA | UK Overseas Development Agency |
| PBS | Parsons, Brinkerhoff, Sabbour, Inc. |
| PIU | Project Implementation Unit |
| PQLI | Physical Quality of Life Index |
| PSC | Project Steering Committee |
| PWC | Public Water Company |
| UNDP | United Nations Development Program |
| USAID | U.S. Agency for International Development |

TECHNICAL

| | |
|----------------|------------------------------------|
| BAB(S) | GOE Budget Categories / Allotments |
| -BAB-1 | Personnel Costs |
| -BAB-2 | Non-Personnel Costs |
| -BAB-3 | Capital Outlays |
| ICOR | Incremental Capital Output Ratio |
| km | kilometers |
| l/c/d | liters/capita/day |
| LPS | liters per second |
| M ³ | cubic meters |

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* Subject to revision of title.

PROVINCIAL CITIES PROJECT PAPER

263-0127

I. Summary and Recommendations

- a. Project Title: Provincial Cities Development
- b. Project Number: 263-0127
- c. Grantee: The Government of Egypt
- d. Coordinating Agency: Ministry of Planning
- e. Implementing Agency: Governorates/Cities of Beni Suef, Menia and Fayoum
- f. Amount (Grant): U.S. \$ 75 million
GOE: \$ 25 million
- g. Life of the Project: Five years
- h. Total Project Costs: \$ 100 Million
- i. Goal: To assist GOE achieve policy objectives in financial and administrative decentralization.
- j. Purpose: Improve and expand institutional capacity of the three governorates of Beni Suef, Menia and Fayoum and their capital cities to identify, plan for, budget, finance, construct, and maintain urban infrastructure and services at the municipal level.
- k. Project Description: The project will provide funds for technical assistance in local administration and the design and construction of infrastructure projects, particularly in the area of water and sewerage. The latter primarily will encompass needed improvement of and extension of existing water systems, and waste water facilities to meet the needs of the growing population through 1990. Early impact projects will be initiated in street improvements.

II. DETAILED PROJECT DESCRIPTION

A. Background

Two important structural changes taking place in Egypt, rapid urbanization and decentralization of government to local levels, provide the impetus for this project.

Egypt is steadily becoming an urban society from a rural population increase, as well as rural migration. The cities of Egypt, especially Cairo and Alexandria are growing rapidly. It is anticipated that by the year 2000, nearly 70 percent of the population will live in urban areas.

This trend has major implications for the Government of Egypt and local governments in terms of meeting increased demands for public services, and strategies must be developed to deal with these demands.

Among the strategies is the strengthening of local governments both in terms of authority and in skills to manage the urban growth and provide essential public services. The Government of Egypt has initiated the decentralization of authority to local government levels through a number of laws which will assist in this process. In theory, these actions have increased the authority of local governments to make decisions and act upon them without central government intervention. In actuality, it will take more than mere legislation to change the practices and attitudes which have developed from having a long - standing centralized government. Local governments must begin to practice and test the newly acquired powers which have been legislated until they gain the confidence and experience necessary to carry them out effectively.

About a year ago, USAID had a series of meetings with the Minister of Planning and his senior staff regarding the possibility of a coordinated capital and technical assistance program in the larger secondary cities of Egypt. At the suggestion of the Ministry of Planning, it was agreed to explore the possibilities for such a program in the Northern Upper Egypt Regional Planning Area, which includes the Governorates of Menia, Beni Suef, and Fayoum and capital cities of the same name, each with populations exceeding 125,000. A meeting was convened in Menia, which included the Minister of Planning, the three governors, a representative of the Ministry of Local Government and USAID representatives, to discuss the further development of program ideas centering on decentralization and urban development.

The purpose of the meeting was to explore ways to strengthen the capacity of the three provincial cities to discharge their increasing responsibility in the areas of public infrastructure and services and to seek the views of the governors on decentralization and urbanization. The governors summarized their views by stating that the people in their governorates have a need to feel the benefits of development. These expectations were divided into three categories.

- a. The availability and improved quality of public services;
- b. The availability of basic commodities; and
- c. The prospects for increased income.

The proposed project focuses on the first of these categories.

The governors were informed in May 1980 that USAID, in cooperation with the Ministry of Planning was proceeding to select a consulting firm to assess needs in the three capital cities. A contract was awarded to P.B. Sabbour, a joint venture of the U.S. firm, Parsons, Brinckerhoff and the Egyptian firm, Sabbour. Work was begun in September 1980 and the final report submitted in March 1981. In its study, P.B. Sabbour reported that officials in each of the three governorates and at the municipal level overwhelmingly stated that their most critical needs were in infrastructure with improved water and sewerage systems as the highest priority followed by an expansion and improvement of the city street network.

B. Program Strategy and Objectives

1. COE Objectives---Decentralization:

The COE's commitment to decentralization of administrative and governmental authority and its objectives were stated in an explanatory memorandum which preceded the issuance of the latest legislative initiative in this area, Local Government System Law (Law 43 of 1979). Among the laws more important objectives are:

- a) The need to develop the capacity of local governments in order to allow for the transfer of centralized authority to local governments, and
- b) The need to encourage local government units to solve problems locally.

The Provincial Cities Project will address the efforts of the central government at decentralization by supporting and strengthening the analytical, managerial, and financial capabilities of the three governorates and their capital cities and by planning and implementing infrastructure improvements.

2. Overall USAID Strategy--Relation to QSS:

The 1982-86 QSS includes decentralization as a major objective of USAID strategy in Egypt. This is consistent with the COE's own objectives. The QSS also notes that a central management concern is the over-centralization of planning, design, and delivery of public services. USAID's primary objective on the management side of social services is to support and accelerate COE efforts to decentralize both its technical and financial management. The intent is to finance locally targeted capital investments in basic infrastructure, particularly potable water and sewer improvements in the rural areas and secondary urban centers of Egypt. This represents a basic shift in the focus of social infrastructure investments towards a new range of targets including the secondary cities in the rural governorates, district towns, and villages. The QSS maintains that "this is a natural sequel to very substantial investments..... which are being made to Cairo and Alexandria....it is also a natural outgrowth of the strategy regarding decentralization, and, finally, it is motivated by a recognition that considerations of social and economic equity warrant particular attention to social investment in those areas which have been under-represented in COE investment allocations."

3. USAID Related Project Activities

The Mission currently is addressing both urbanization and decentralization with a variety of separate and interrelated projects and studies.

a. National Urban Policy Study

This activity is directed towards analyzing settlement patterns for the entire country and is being designed to assist the GOE develop a National Urban Policy through the year 2000.

b. Informal Urban Housing Sector Study

An indication that rapid urbanization has overtaken the ability of the government to meet social needs is the growth of the "informal housing sector", i.e. growth without government sanction. It has been estimated that over 70% of recent housing construction takes place in this sector. The objective of this study is to analyze the physical and financial characteristics of the informal housing phenomena to assist the GOE in planning a strategy for the future development of the informal housing sector.

c. Land Use/Infrastructure Development

A major problem of rapid urbanization is the consumption of land without planning for its present and future use. This study has made an inventory of vacant land in Cairo and charted the patterns of growth. Recommendations for the development of these lands will be made and it is anticipated that a PID will be submitted in early FY 82.

d. Development Decentralization I (DDI)

Development Decentralization I was authorized in 1978 and currently provides nearly \$12 million for lending to village councils for income producing cooperative projects.

e. Basic Village Services (BVC)

The Basic Village Services Project authorized in August 1980, provides \$145 million (\$70 million LOP funding, plus another \$75 million PL 480-Title III proceeds) to expand the capacity of nine Governorates and some 500 rural villages throughout Egypt to develop and implement locally selected, infrastructure projects.

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f. The Decentralization Support Fund

The Decentralization Support Fund Project was authorized at the same time as the BVS project. This project provides \$50 million for the 21 rural governorates to purchase the capital equipment necessary to expand and maintain local government services in such areas as sanitation, health, transport, etc. based upon their own perceived needs.

These two separate themes - urbanization and decentralization - are merged in the Mission's Provincial Cities Development project and the Neighborhood Urban Services Project.

4. Other Donors Related Activities

Many multi-lateral and bilateral donors are contributing to a variety of activities in urban and rural development in Egypt. Two of these activities are of particular interest to USAID's efforts relative to local government.

Since 1975, the UNDP and the United Kingdom's Overseas Development Administration have supported technical assistance projects in the Canal Cities/governorates: Ismailia, Suez, and Port Said. The project goal has been to aid in the decentralization process by building the capacity of local government to manage its own development.

Another significant effort for this project comes as a result of a recent (1980) World Bank study concerned with the Provincial Water Supply Project carried out by a joint venture of two British firms, Binnie and Partners, and John Taylor and Sons in conjunction with an Egyptian consulting firm, Dr. A. Abdel Wraith and Coopers and Lybrand. The report examined the needs of potable water for provincial Egypt, excluding Alexandria, Cairo, and the Canal Cities. Most carefully studied were the governorates Beheira and Kafr El Sheikh. Among its recommendations were for the QOE to establish:

- A High Council for Utilities, chaired by the appropriate Minister to set out coordinate policy guidelines for all water utilities and related water resource bodies.
- A National Water Authority (NWA), to coordinate policy making and planning in the provincial water industry including setting standards and regulations and providing technical services.
- Public Water Companies (PWC) - owned 70% by the governorate and 30% by the NWA. The PWCs would operate as independent utilities determining costs and setting rates commensurately.

- Project Implementation Unit (PIU) - to be set up within the Ministry to manage the overall effort and to eventually be absorbed along with - the General Organization for Potable Water (GOPW) as part of the NWA.

Among the recent developments with regard to this project are:

- Presidential decree # 197 of 1981 has been signed establishing the National Organization for Potable Water and Waste Water Projects (Annex K).*
- In decree # 198 of 1981 the Beheira Water Company, with ability to set rates and retain revenues, has been established and will be functioning by July 1981.
- A PIU unit in GOPW has been formed which will carry out the proposed project.

C. Problem To Be Addressed

Although the decentralization of responsibilities to local governments over the past five or six years has been substantial, the process has been limited to some degree by several factors. First, there has been some continuing resistance on the part of ministries and central organizations to relinquish their prerogatives. Second has been the lack of, although growing, capacity of the local governmental units to fully plan for, implement, operate, maintain and manage their own activities. Finally, budgetary resources, for both capital investment and operations, has fallen short of actual needs of local government to expand their services relative to population growth. The larger provincial cities are no exception to the above.

The study done by the consultants covering the three cities selected for this project, Fayoum, Beni Suef and Menia, indicates that none of these cities has undertaken any long-term comprehensive systems planning for their infrastructure needs, particularly at this relates to streets, water and sanitation, and that the operation and maintenance of their infrastructure needs to be substantially improved. Yet all three cities have indicated that expansion and improvement of their infrastructure is a high priority.

The consultants confirm that the water and sewer systems are totally inadequate in terms of their capacity and condition to serve the minimum needs of the cities. The street network system in all three cities is generally of poor quality and covers a very limited area. Electricity is handled by the regional electric authority and is not considered to be a high priority problem. Housing, which is considered to be a major problem, will not be addressed in this project except indirectly through provision of services. Therefore, this project will concentrate, at

Subject to revision of title

During project design work this became even more apparent. It also became apparent that the decentralization of water supply development and operation, one of the two highest priority public service areas identified by Menia, Beni Suef and Fayoum, had proceeded on another front as described earlier in the World Bank project to finance governorate level water companies which will absorb municipal systems.

Therefore, this project, as now designed, will take this into account by providing some technical assistance at the governorate level and will recognize that the technical and capital assistance for water supply improvement and expansion may eventually accrue to a governorate wide water company. This is considered to be consistent with the overall goal of decentralization. Design work has also resulted in the inclusion of high priority city streets as part of the project financing in order to enable implementation to proceed more rapidly and evenly. As mentioned above, other high priority items may be included to be responsive to city needs.

b. Technical Assistance

The U.S. technical assistance will be provided under a direct AID contract with an American firm or firms in association with Egyptian A/E and/or management firms to provide engineering, planning and financial management services as a general consultant. The technical assistance will be designed to improve and increase the capacity at the local level to develop and implement the necessary social infrastructure required by the three cities. Egyptian firms will be responsible for engineering design and supervision of construction for subprojects. Contracting for these services will be done by each city independently.

As the general consultant, the firm will undertake some work directly and advise and assist each of the involved departments in other components of the work. The basic framework of the contract will be a team of American and Egyptian resident advisor at the municipal level but who will also work with elements within the governorate. These resident advisors will be generalists who will assist across the board and will also act as liaison with the specialized experts to be furnished under the contract.

Because of the importance of getting work underway on comprehensive systems planning in water and sewers and the more sophisticated nature of this work the general consultant will directly undertake this work. The consultant will also provide specialized short term expertise along with the resident advisors to assist the technical departments of the cities in the following:

least initially, on the areas which the cities have identified as highest priority, improving and developing the water, sewer and street systems of the three cities. It will, however, leave the option open for possible other city capital needs if a particular priority situation should arise.

D. Project Goal and Purpose

The goal of this project is to assist the COE to achieve its policy objective of economic and administrative decentralization and to foster a more effective urbanization process at the secondary city level. It will help to expand decision making capacity on the broadest possible basis through providing local government decision makers with experience in the allocation and utilization of resources and in developing the financial and other mechanisms to carry out their development programs. Such decentralization is based on the assumption that increased local government responsibility for development activities will result in a more equitable, self-sustaining, and, hopefully, a more efficient, development process relevant to both national and local interests.

The specific purpose of the Provincial Cities Development Project is to improve and expand the growing institutional capacity of these governorates and cities specifically to identify, plan, budget, finance, design, construct and maintain urban infrastructure and services at the municipal level.

E. THE PROJECT

1. Description:

a. General

The project will entail both technical assistance and capital assistance, including costs for studies, engineering design and supervision, at the local government level, both to the governorate and to the municipality, in Menia, Beni Suef and Fayoum for public service infrastructure development, primarily streets, water systems and sewerage systems. The Grant Agreement will be flexible enough to permit other items to be financed, i.e. health or community centers, if a high priority need should arise. The aim is to be responsive to needs at the municipal level as perceived by the municipalities themselves provided the identified needs are consistent with sound social, economic, and engineering considerations.

As originally conceived in the PID, the project was intended to focus its efforts directly at the city level although recognizing that certain decisions and resource control take place at the governorate level. It was also recognized that the degree of governorate involvement varies in the different governorates depending on such things as the governor himself and on staffing capabilities.

Preparing the scopes of work, selection of consultants and contracting for feasibility studies and for preparation of final designs, cost estimates and bid/contract documents for those projects selected to go forward. Will also assist the cities in supervising this work and in reviewing the final product.

Preparing the scopes of work, assisting in the selection of Egyptian consultants and contracting for supervision of construction for those projects selected to go forward.

Assisting in the bidding process, reviewing bids, assisting in selecting the contractor and the contracting for the construction of individual projects.

Preparing specifications, bid documents, reviewing bids, recommending awards and contracting for major items of equipment, i.e., water treatment plant equipment, if necessary.

Doing a detailed assessment of the technical/engineering capabilities in each city, recommending a specific training program, and assisting each city in carrying out the training.

Assisting in the improvement of operating practices relative to maintenance of the water, sewer and street systems.

Assisting in the improvement of management and administrative practices relating to organization, planning, information systems, personnel management and financial management of infrastructure services. Of particular importance in this category is the establishment of cost accounting systems, improvements in the budgetary process and the introduction of more realistic charges i.e. what revenues for water should be and what the city might expect to charge, perhaps recommending a phased approach over some period. Management information should include relevant socio/economic data necessary for planning and setting charges.

It is anticipated that there will be a headquarters office of the general consultant located in Cairo to coordinate the activities and programs among all the interested parties. In addition to the staff in Cairo and the long-term resident advisors in the cities, short-term expertise will be provided as required.

c. Capital Assistance

Under the decentralization goal of the project the capital components to be financed under the overall project will not be determined until the project is underway. An order of magnitude projection of each city's needs in streets, water and sewerage until 1990 was contained in the PB Sabhour report and is outlisted in Section III, A and Annex M. The proposed AID financing is within the projection of needs.

In providing the capital assistance a system will be established to determine the criteria and procedures to be applied in the selection and execution of sub-projects financed under the project. This will assure that feasibility studies including preliminary engineering, financial information and reasonably firm cost estimates are available before a decision is made to go forward on a sub-project. The feasibility studies will also include economic and social considerations, maintenance capacity, availability of support requirements such as power and environmental considerations. Costs for such feasibility studies as well as the costs for final design and supervision will be part of the capital component of this project.

The P.B. Sabhour report recommended that major new projects, including treatment plants for water and sewers, not be undertaken until long term systems plans for water and sewer have been completed. These long term plans, to be done by the general consultants, will form the basis for the feasibility studies in water and sewers described above. Such a process, however, while constituting an economically and technically sound approach, obviously will take time before any physical construction gets underway.

At the time the PID was prepared, it was thought that each of the cities had certain high priority water and sewer projects ready to go and that only financing was lacking. On the assumption that these sub-projects would clearly fall into any long term systems plan, they were to constitute the initial project financing. However, during the project design it has turned out that there are no projects of this nature ready to go.

In order to get some physical components of the project underway as quickly as possible as a demonstration to local government officials of the GOE's responsiveness, the project design team developed a series of quick impact sub-projects which will be economically and technically sound, which are considered high priority by local officials, and which can get off the ground quickly.

These sub-projects will include street paving, rehabilitation of the existing water and sewer systems, and construction of high priority new access roads, water distribution and sewer collector networks. One of the highest priorities will be to perform a leak-detection analysis, testing and repair program to reduce substantially known or suspected potable water losses in each of the cities water supply systems. These projects will be appraised initially by USAID staff as to their economic and technical adequacy to ensure that they will clearly fit into the longer term systems.

By including a substantial element of street paving and new street construction in the project to supplement financing for the water and sewer systems the total size of the project has been expanded to \$100 million including the GOE contribution. As mentioned above, the Grant Agreement will permit the financing of other components of public capital projects if determined to be of high priority during project implementation.

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2. Cost

The exact composition of the capital components of the project has not been agreed to at this time. The breakdown between cities, however, has been initially set at \$25 million with \$10 million for A/E consultant contracts for U.S. and Egyptian firms.

An illustrative breakdown of the project is shown below:

| | <u>\$Million</u> |
|---|------------------|
| Technical Assistance (U.S. & Egyptian A/E) | 10.0 |
| Menia | 25.0* |
| Beni Suef | 25.0* |
| Fayoum | 25.0* |
| Other unallocated subprojects plus a reserve for contingencies and inflation | 15.0 |
| | ----- |
| | \$ 100.0 |

3. Implementing Agencies

The respective city governments working through various departments will be the primary implementing agencies involved in the proposed project. This will include the engineering department (water, sewer, streets) as well as the planning, budgeting, financial and personnel functions along with the executive council (headed by the mayor) and the elected council. Recognizing that the governorate plays a very strong role in each instance in supervising municipal activities and, in some cases, providing staff support, the governorate operations, which have a similar structure to the cities, will be involved in and benefit from the project. The analysis of these relationships and the organizational beneficiaries are described in detail in Section III B and Annexes G, and O.

From the central government level, the Ministry of Planning will be the key agency. Representing its interests at the governorate level will be the Regional Planning Office, physically located in Menia, and covering the Northern Upper Egypt Planning Area (Menia, Beni Suef and Fayoum). A Project Steering Committee (PSC) for the project will be established by the Ministry of Planning and will include other involved central ministries and agencies as well as the three governors or their representatives.

* Adjustments in allocations among each city may take place during the life of project, particularly given incremental funding that will occur.

F. Achievement of Objectives

1. Current Situation

The public infrastructure development and operation of each city is approached, in the first instance, through the annual budgetary process. The city executive council, headed by the mayor, prepares a list of items which it wants to finance during the coming fiscal year without guidance from the central government. The budget planning is done without the benefit of plans and somewhat general cost estimates. These proposals are approved by the elected city council, and forwarded to the governorate level which has a similar organizational make-up. They are then incorporated into the overall governorate budget for submittal to Cairo.

The fact that the capital as well as the operating budgets have two major components (the headquarters budget which is under the control of the governorate and various "directorate" sub-budgets) complicates this exercise. The directorate sub-budgets are controlled by the representatives of various central line ministries who are located at all levels of local government, including the city, and serve on the executive councils.

Therefore, even when the final budget allocation is made from the central government, only a portion is under the direct control of the governorates. Most of the remainder is allocated directly to the central ministries for use in their activities administered at the local level and are subject to the decisions of the central ministries as to where the allocations are made.

At the present time, when funds are allocated by the central government to a local government for headquarters functions i.e. those funds not controlled by the line ministries, they are allocated to the governorate for sub-allocation to the different municipal, district and village councils. In the case of appropriations for capital investments, which are different from personnel and operating costs, all cash accounts are maintained at the governorate level and disbursements are then made to local government units responsible for execution of the projects.

Compounding the overall problem is the fact that the collection of revenues at the local level, e.g. metered water and property taxes, is not taken into consideration by the ministries of Planning and Finance in allocating budget resources. That is, revenues are remitted directly to the central government and the final allocation of resources to a governorate does not relate to what revenues have been collected and submitted either as a general matter or as related to specific functions. For instance, water rates, which are set by the central government, are highly subsidized and unrelated to costs. In fact, the cities' accounting systems do not permit them to ascertain what actual costs are for any of their services.

Thus, the budget allocations for capital investment in city infrastructure are not made within the planning context of a long term investment plan for any of the components nor do they relate to what is requested.

In addition, the execution of capital projects such as water filtration plants, sewerage treatment plants and force mains, as opposed to the less complex distribution and collector systems, are done by the General Organization for Potable Water (GOPW) and the General Organization for Sewerage and Sanitary Drainage (GOSSD) under the directorate budget of the Ministry of Development, Housing and Land Reclamation. Generally, however, this execution has been very slow in the past, even when financing was approved. Liaison with local personnel is usually at a minimum. This is one of the problems which this project will address.

There has been some precedent set by the 1980-81 capital budget for the Menia Governorate headquarters budget which contains LE 2.4 million for potable water supply expansion outside the capital city, an amount that previously would have been part of the Ministry of Housing's directorate budget. The most significant development in this regard has been the decrees establishing an overall National Organization for Potable Water and Waste Water Projects (Annex K)* (to eventually replace GOPW and GOSSD) and a public water company in Beheira Governorate with World Bank financing. While it will undoubtedly be some time before the public water company concept can be established on a national basis, it is a major policy change.

In summary, according to the PB Sabbour analysis of the technical capacity of the cities, which has been confirmed during the project design period, there is currently insufficient technical expertise and experience at either the city or governorate level to execute the design or construction of large and complex projects. The cities or governorates are able to carry out smaller projects involving street construction and paving, water and sewer mains and the distribution and collector systems. There is a nucleus of competent personnel but it is limited in number. It is this aspect that the general consultant described earlier will address.

The operations and maintenance of the cities' public infrastructure, including water and sewage plants, is the responsibility of each city. With regard to street paving, standard plans and specifications are used and appear adequate. From a management standpoint, the same technical personnel involved in capital project development and execution are responsible for operations and maintenance. Here again, the nucleus is good but the numbers of trained personnel are short.

The result, detailed in Section III A., is that the operation and maintenance of public infrastructure at the municipal level needs considerable improvement. This must occur concomitantly with any significant capital expansion.

From the management side there is a basic lack of records to provide necessary information for management. There is no cost accounting system to adequately determine unit costs relative to a particular aspect. Personnel management relative to infrastructure provision and operations must also be improved. In terms of planning for and implementing their major infrastructure needs the cities are currently subject to the priorities, for both budget and implementation, of the central government.

2. Intended Results

The project is expected to result in a long term comprehensive capital plan for the two major items of urban infrastructure, water and sewerage, and a more rational approach to planning new street construction and maintenance of existing streets within the cities. It is intended to do this within the context of enhancing the cities' own capacity to develop these plans and at the same time budget for them in a systematic way. To provide the basis for achieving this, approximately \$25 million will be provided each city to finance its priority infrastructure needs, currently identified as water, sewer and streets, along with financing for supplemental technical assistance.

This project will enable the city to develop its own capability to contract for the design and construction of work utilizing contractors of its own choice, and, thus, gain the experience to carry on these activities in the future. It is also intended to result in the increased capability of the cities to operate and maintain their systems at a level not now attained.

The above intended achievements are specific and should be attainable over the five year life of project. However, just as important and more difficult to pinpoint are sub-goals relative to revenue generation. This project intends to approach this aspect on a "best efforts" basis. It is intended that a start will be made to address this other side of the cities' infrastructure operation, that is, generation of revenues internally to finance and operate the services to lessen dependence on the central government. This start will entail the establishment of a cost accounting system that will enable the cities to ascertain the actual cost of providing services, i.e., economic and financial; for instance, what it costs to produce a cubic meter of potable water. A realistic short term goal will be to quantify subsidies and identify the recipients. The eventual goal, albeit long-term, is to have the city charge for, collect and retain at least a significant portion of these costs in order to develop and operate their own systems. The financing of sewers and streets is more difficult conceptually and may have to come from general revenues or some type of surcharge. The important thing is to develop a methodology.

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The World Bank project mentioned above has already established the precedent of beginning to put the provision of potable water on an economic basis through the formation of water companies at the governorate level. Heavy subsidies will still be involved but their exact cost will be known. The intent is to have the central government or governorate make a conscious decision as to the level of subsidies and reimburse the water company. These are steps in the right direction and, conceptually, should influence efforts in Menia, Beni Suef and Fayoum. If a decision eventually is made to absorb the water supplies of the three cities covered in this project into governorate - wide water companies in the future, the improvements made under this project can be incorporated easily.

III. PROJECT ANALYSIS

A. Technical Analysis

1. Introduction:

This technical analysis is based primarily on work done by the Egyptian firm PB Sabbour, a joint venture of the firms of Parsons Brinckerhoff and Sabbour, under contract to USAID for a prefeasibility study of this project. Field work during project design concentrated on corroborating and expanding the PB Sabbour work. The cities have identified water, sewer and streets as their highest priority needs and these are the elements which PB Sabbour reviewed. This section of the report focuses on these three elements.

In general, the growth of Menia, Beni Suef, and Fayoum has outstripped the capacity of the existing infrastructure to provide adequate services. Each of the cities has a public water system owned and operated by the city. In the case of Fayoum the city water treatment plant is supplemented by a QAW plant which was originally designed to serve the rural areas of the governorate but part of the output is now used by the city because of the city's needs. Each of the cities also has sewage treatment facilities. In both water and sewerage, coverage is inadequate with the poorer areas of the city least served. The same thing can be said of the street system, it being inadequate both from the coverage standpoint and in terms of paving. The principal responsibility for streets, excepting roads of national importance, is at the governorate level. None of the three cities is staffed for street-related work other than limited maintenance.

Planning for future expansion has been almost non-existent, being done on an adhoc basis, primarily because of the uncertainty of funds and the lack of planning expertise. Operation and maintenance, while in some cases remarkable in terms of the age of the water and sewage treatment plants, is again hampered by budgetary problems, the lack of staffing and lack of planning.

2. Existing Infrastructure:

a. Menia:

(1) Water Supply:

Water supply for Menia comes from three sources; the Nile river, the Ibrahimia canal, and four wells located throughout the city. Menia's water supply was developed in three stages, mainly in 1927, and 1964. In the third stage (1970 and 1975), four wells were added. According to the P.B. Sabbour report the 1927 filtration plant is close to the end of its useful life. Most components of the 1964 plant are in good operating condition and, with some minor modifications and rehabilitation, can serve for many years. Direct pumping of well water into the system without treatment results in poor quality in this case. Additionally, lack of treatment could be a problem since pollution of wells from surrounding conditions is possible and probable.

(2) Sewerage:

Existing Facilities: Sewage facilities for Menia were constructed in the early 1960's and began operating in 1966. The system includes four pumping stations with a total capacity of 795 LPS, a collection system and force mains. In 1975 a new pumping station with 270 LPS capacity and a connection system was constructed in previously unserved areas. New house connections in many areas of the city have since been made. About 35 percent of the city is now served with sewers.

(3) Streets:

The city of Menia contained approximately 70 kilometers of streets in 1980 of which approximately 24 km. were paved. Streets are in fair to poor condition, with extensive upgrading needed.

b. Beni Suef

1) Water Supply:

Water supply, treatment and distribution facilities were developed in Beni Suef in several stages. The original treatment plant with a rated capacity of 60 LPS was constructed in 1907 and is still in operation. In 1949, this plant was expanded by 100 LPS and a second expansion in 1975 added 50 LPS, giving a total capacity of 210 LPS.

Filters and underground storage from the 1907 component of the plant have severe structural deterioration and are at the end of their useful life. This facility should be abandoned and dismantled as soon as the new plant, now under construction, is in operation. A new plant with a 200 LPS rated capacity is now under construction. Completion was scheduled for January 1981 but will probably not be completed until at least the fall of 1981. Sufficient property exists in the plant area to expand to a future capacity of 600 LPS. Absence of standby pumping capacity, elevated storage and emergency power will preclude this plant from operating at its rated capacity.

The distribution network suffers from deterioration and excessive pressure loss due to age and corrosion, insufficient grid closure mains and small main sizes. Also, there is virtually no elevated storage in the system.

(2) Sewerage:

Sewage disposal facilities were first built in Beni Suef in 1958, and they have been extended in small increments several times. The principal needs in Beni Suef are to extend the sewer system to lower income families not currently serviced by sewer lines.

3) Streets: The city of Beni Suef contains approximately 80 kilometers of streets of which approximately 30 are paved. With the exception of the partially built ring road, all paved and unpaved streets within the city are in poor condition.

c. Fayoum

(1) Water Supply:

Fayoum water is delivered from two treatment plants, located on canals. Both canals draw water from the Nile River, upstream of Beni Suef.

The Kohafa water treatment plant, owned and operated by the city furnishes 200LPS to the city. The plant was originally constructed in 1927 and was expanded to its present capacity in 1965.

The El Azab Plant, located southeast of Fayoum, is owned and operated by the GORV. It serves the entire governorate area as well as the western part of the Beni Suef Governorate. At present, the El Azab plant furnishes about 250 LPS to the city. The delivery is intermixed with water from the Kohafa plant. Construction of the original portion of the El Azab filtration plant was completed in 1940 and expanded in 1963.

The Fayoum distribution system was constructed in 1926 and expanded moderately since that time. It is in relatively good condition considering its age but needs to be upgraded to meet present day needs.

An expansion of the Kohafa plant would firm up Fayoum City capacity and would release 250 LPS from the El Azab plant for use elsewhere in the governorate. The distribution system in the Fayoum area can handle this additional capacity since it was originally designed to convey larger flow rates.

(2) Sewerage:

Fayoum's sewer network was originally constructed in 1936, and the treatment plant was completed in 1938. Minimal expansion has taken place since then with the exception of the addition of sludge drying beds. Large areas of the city which are available for development are not serviced by the sewer system.

Two force mains convey the sewerage to the plant. The two pumping stations appear to be reasonably well maintained, but maintenance at the plant was neglected to the extent that only one-fifth of the sewage could be treated, being discharged raw into the drainage canal. The drainage canal flows through the north portion of Fayoum and empties into Karoon Lake, which has no outlet.

A new plant with 40,000 M3 per day capacity, with a flow of 460 LPS, supposedly had been bid by COSSD and site clearing completed. The plant, consisting of primary sedimentation, biological treatment with mechanical aerators, final sedimentation, chlorination and sludge drying beds was to be in operation within the next few years. However, during project design it was ascertained that financing was not available.

(3) Streets:

The city of Fayoum contains approximately 85 kilometers of streets of which approximately 25 are paved. The most recent paving is reported to have been at least five years ago, and all streets are judged to be in poor condition.

3. Summary Infrastructure Needs

In summary the consultant confirmed that the water and sewer systems in the three cities are totally inadequate and the street network is generally of poor quality and covers a very limited area. PB Sabbour as part of its feasibility study work prepared an estimate of infrastructure needs in each of the three cities. These were done on an order of magnitude basis for illustrative purposes because of the need to adjust to the priority requirements of the Governorates/cities during the implementation. They were slightly more detailed for water and sewer but are more general for street requirements. The PB Sabbour report formed the basis for the cost estimating in this project paper. However, we recognize that components may change as the master plans and subprojects plans are developed in detail. A description of the PB Sabbour estimates are contained in Annex P.

4. Capability and Availability of Personnel For Design, Supervision and Construction

Design capability for infrastructure at the municipal level is almost completely lacking. The limited number of engineering personnel of the governorates and cities are fully occupied in the performance of their recurring duties and could not undertake the added responsibilities for system design, preparation of specifications, and supervision that the implementation of this project would require.

To meet this need, a general consultant under a direct AID contract, and Egyptian A & E firms will provide engineering, planning and financial management services to the governorates and cities. The assistance will be designed to improve and increase the capacity at the local level to develop and implement the necessary infrastructure required by the three cities.

5. Operations and Maintenance

Many of the existing operating practices found in the cities are good. In fact, a number of them are exceptionally good given the antiquated equipment and plant and the absence of various types of automatic recording and monitoring equipment ordinarily found in waste and sewage treatment plants.

With respect to two of the three infrastructure components being addressed in this project, water, sewer and streets, water is the most complex when it comes to operating and maintenance requirements, followed by sewage. In general, the operation and maintenance of public infrastructure at the municipal level needs considerable improvement.

Basically the maintenance problem narrows down to a shortage of trained professional personnel and budgeted funds for replacement parts, supplies (including chemicals for flocculation and treatment) and staff expenses. To address the personnel problem, each of the cities will be required to recruit additional technical staff who will be given training under the supervision of the general consultant (see Annex J draft scope of work). To ensure that there are sufficient funds to cover the cost for replacement parts and supplies, 1-10% of each sub-project cost will be added for operations and maintenance. Annex N provides a more detailed account of the O&M needs for this project.

6. Summary

From the above discussion, it is apparent that the requirements of repair, upgrading, provision of new plant, equipment, spare parts, paving, resurfacing, sewer collector pipes, high pressure water pipes, pumping stations, filtration units for water and sewage treatment and a variety of other tasks have been examined in detail by PB Sabbour, although not exhaustively.

Section 611 (a) of the Foreign Assistance Act of 1961, as amended, requires that no obligation of funds in excess of \$100,000 may be made for a project where substantive technical or financial planning is required until engineering, financial, and other plans necessary to carry out such assistance and a reasonably firm estimate of cost to the United States Government providing such assistance have been completed.

In the proposed project, the focus, for purposes of determining whether the requirements of Section 611(a)(1) have been met, must be on the adequacy of the planning which is required to improve and expand a continuing capacity in local units to plan, organize, finance, implement and maintain locally chosen infrastructure projects and the methodologies of achieving these ends. The project paper sets forth in detail the background, analysis and chosen strategies which reflect the extensiveness of planning which has taken place in support of this activity and provides cost estimates along with analyses of that data.

Although the subprojects themselves will require utilization of some \$73,000,000, they have not as yet been firmly identified and, therefore, no specific analysis of individual subprojects can be made prior to the obligation. In any event, however, for purpose of Section 611(a)(1) requirements, the primary focus of this Project is that of furthering decentralization and, in particular the improvement and expansion on the specified Governorates and cities of the capacity to identify, plan for, budget, finance, construct and maintain urban infrastructure and services. In this respect the Project Paper goes into great detail on the background, analysis and chosen strategy which reflect the extensive planning which has been done to establish a system including Government and administrative authorities under which the subproject aspect of the project will be carried out. The Implementation Plan establishes a system and a procedure under which this project will be carried out; and including (1) mode of development of criteria for selection of subprojects, (2) the procedures and methods to be followed by the cities for procurement of goods and services, (3) the requirement that short and long term comprehensive plans be developed for each city and (4) the procedures for project financing and

accounting. In Annex M, illustrative estimates made by field studies have been provided. The Implementation Plan sets forth the types of subprojects to be financed and the associated yearly allocations and cost estimates. In addition, the system will be evaluated and improved as the project progresses through the technical assistance to be provided.

B. Administrative Analysis

Although the roles of the organizations listed below attempt to show interlocking relationships among each group, they are nonetheless complicated. A fuller description and discussion of the processes of the development of the budget requests and its ultimate formation is given in Annex O.

The coordinating agency for the Provincial Cities Development Project will be a Project Steering Committee (PSC) composed of representatives from the various levels of government: the Central Ministries, the Governorates, and the Cities. A detailed description of the PSC's duties is provided in the Implementation Section. The committee will review sub-projects developed by the general consultant in concert with the governorates and the cities. A description of contemplated members and their current roles is discussed below.

1. Organizations Involved

a. Ministry of Planning (MOP)

The budgetary and planning process for the Government of Egypt is both a top/down and bottom/up procedure.

This central Ministry of Planning has been the key contact since the conception of the Provincial Cities Development Project over a year ago. It is anticipated that the MOP will continue to play a pivotal role on the PSC.

Both the planning and budgeting functions lie at the foundation of genuine decentralization. While local government laws have been legislating additional responsibility over these functions to the local governments, the Ministries of Planning and Finance still play a major role in the allocation of funds to the local level and thus, have an impact on those levels. It is for this reason that their coordination and advice is deemed crucial for the success of this project.

At the National Level, the National Investment Budget request is submitted to the National Assembly for approval. Before this is done, the Ministry of Planning breaks down the National Investment Budget. Part of this budget includes the capital sums (BAB-3) which will be allotted to the governorates for investment.

At the same time the National Investment Budget is being developed, the budget process at the municipal and governorate level is also on-going. Municipal departments prepare their requests for the three budgets, or BABS (meaning "doors" in Arabic; corresponding to Chapters or allotments): BAB-1 (personnel); BAB-2 (non-personnel supplies, operations and maintenance) and BAB-3 (capital expenditures). These are submitted to the local elected councils to be approved (see Annex G for a description of Local Government Organization). Only BAB-3 can be adjusted; the others remain firm. Once approved, the budget requests are submitted to the Governor and his elected council.

The Governor goes through the same process, assembling information and requests from all the municipalities in his governorate. He then submits the approved budget requests of BAB-1 and BAB-2 directly of the Ministry of Finance in Cairo.

On the other hand, he submits his BAB-3 request to the regional planning officer from the Ministry of Planning located in his governorate. The regional officer adjusts the BAB-3 budget to fit others in the same region and then submits the regional BAB-3 to the MDP in Cairo.

At the National Level, the MDP trims the BAB-3 to fit the total national investment funds available, and submits this to the People's Council for final approval. Once approved, BAB-3 funds are deposited to the National Investment Bank (for the first time this year) in the name of the Governorate, along with the list of those projects which have been designated to be funded. These funds are earmarked for specific projects and consequently can be carried forward into the following fiscal years without reverting to the Ministry of Finance (the fate of unused BAB-1 and BAB-2 funds).

b. Ministry of Finance

In addition to the Ministry of Planning, the Ministry of Finance has a key role in the allotment of funds to the local government units. At the National Level, as mentioned above, the BAB-1 and BAB-2 budgets from the governorates are submitted to the Ministry of Finance in Cairo. The MOF then meets with the governorates and their elected councils to discuss levels of funding to be authorized. These levels are made on the basis of the Ministry of Finance's estimate of total GOE resources and are not related to estimates of revenue collection by the governorates.

c. Ministry of Development, Housing, and Land Reclamation

Under this Ministry are two organizations which are important to this project: the General Organization for Potable Water (GOPW) and the General Organization for Sewerage and Sanitary Drainage (GOSSD). A description of their present functions follows. As previously mentioned, in March, 1981 presidential decree #197 created the new organization: the National Organization for Potable Water and Wastewater Projects which will eventually absorb the functions of these two organizations (Annex K).

GOPW

This organization was formed under a presidential decree and operates eleven regional water supply systems. It has a staff of 760 based in Cairo and 3100 based at the treatment plants where it is responsible for plant and network operations, maintenance, and customer services. In larger municipalities such as Menia, Beni Suef, and Fayoum, which operate and maintain their own water systems, GOPW is responsible for project planning, design, and construction.

GOSSD

This organization currently plans, designs, and constructs sewerage systems throughout Egypt with the exception of Alexandria (A/GOSD) which has its own organization. GOSSD employs some 12,000 people. It is interesting to note that GOSSD contracts to local A/E's and construction contractors for the design and construction of major sewerage works.

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d. The Governorates.

Administratively, Egypt is divided into 26 governorates, presided over by a Governor with Ministerial rank appointed by the President. Since 1977, the country has also been divided into eight regional planning areas presided over by a High Committee for Regional Planning in each region. Members of the committees include the governors, the representatives of various ministries and the head of the Regional Planning Authority which is part of the Ministry of Planning, although locally based. (It is to this regional officer that the BAB-3 budget is submitted).

To date, the major decentralization change has been between the central ministries and the governorates, with the governors assuming more and more control over most ministerial departments in their governorates. Not all governors pursue the options in this regard that the 1975 and 1979 local government laws made possible (Annex I). Yet to the extent they have, some of the independence of the lower district and village levels has been reabsorbed at the governorates level in order that the latter might present a more solid front to the center.

e. The Cities

Organizational charts of the cities involved in the project and a description of local government organization are found in Annexes G and L. The head of the city is the mayor who is appointed by the governor.

f. USAID

The proposed project will be the primary responsibility of the office of Urban Administration and Development (DRPS/UAD). In anticipation of the increased workload represented by a number of new urban projects: Cairo Water and Sewerage; Alexandria Sewerage; Canal Cities Water and Sewerage; and Provincial Cities Development, this office currently is being reorganized to increase both its capital loan and engineering capacity; the latter will include engineering disciplines in the fields of civil construction, sanitation, and the environment.

It is anticipated that the project will be monitored by a full-time project officer, assisted by an engineer. The proposed project is presently being backstopped in Washington by NE/TECH/SARD which also backstops other decentralization projects, among them: Basic Village Services; Decentralization Development 'I; and the proposed Neighborhood Urban Services.

2. Capacity of the Governorates and Cities to Manage Project Financial Management

All governorates and city administrations have accounting systems and personnel sufficient for budget and expenditure control. These administrative units are capable of managing the project funds to be provided. Although these departments are oriented to book-keeping and expenditure control, they are well-organized and properly managed. The head of each department is a Ministry of Finance appointee with appropriate expertise. An independent Ministry of Finance audit staff is located in each governorate and conducts both routine and non-routine audits.

Law 43 of 1979 (Annex I) established the right of the local government units to have special accounts to which funds from foreign donors and other sources could be deposited, by passing through the usual budget process. This project proposes to make use of the special account system for direct deposit of project funds (see Financial and Implementation Analysis). Currently these accounts are used to finance local development projects which are financially self-sufficient.

A separate account is maintained for each project and has its own accountant. The money is kept in local banks and is not subject to reversion to the Ministry of Finance. Computerized daily, monthly, and yearly balances and ledgers are maintained. Although this is the early stage of development of a financial information system, it recognizes a need on the part of local officials to obtain faster and more accurate financial information. Technical assistance will be provided in the areas of cost accounting, utility fund management, and financial information systems.

Technical Capacity

A major component to the successful implementation of this project is the role that the general consultants will play with regard to the physical components of the project and their work with the cities technical departments.

The engineering and technical staff at the municipal and governorate level is limited in number (see Annex G). The present staff seems capable of supervision of construction at current levels. However, any major expansion of these programs would most likely end in an over-load of the ability of the current organization and staff to assure proper construction practices.

Except in highway, street, and road construction, there appears to be insufficient technical expertise and experience available at either the governorate or municipal level to execute larger and more complex projects. Such responsibilities still revert to the central government agencies. Under these circumstances, wide use of consulting personnel during both the project planning and execution phases will be required to assure adequate plans and specifications as well as conformance to these specifications. The general consultant, working with the cities and with Egyptian A/E firms will provide this capability.

3. Availability of Public and Private Contractors

Engineers

There are no major consulting firms in any of the three cities to provide design services, preparation of specifications or supervision of large-scale undertakings. Under the concept, however, to be applied to this project, the municipalities, with the assistance of the AID-funded general consultant, will contract with larger Egyptian A/E firms for feasibility studies, design and supervision. Firms selected will probably be Cairo-based and of adequate size and experience to take on the type of work contemplated. USAID engineering review indicates that such firms are available and that this aspect of the project should not be a problem. The important factor will be the development of scopes of work, letting of contracts, and the supervision of those contracts. An assessment has been made that the contracting procedures within each city and governorate are adequate, time-tested, and firmly adhered to.

For those components of the work, such as the design and supervision of construction of a water treatment plant, it is intended that an American firm will be used. Conversely, Egyptian A/E's will associate with an international firm to supplement their staff.

Construction

Both Menia and Fayoum have contractors with adequate capabilities to carry out some of the small sub-projects envisioned in this project. On the other hand, Beni Suef relies upon Cairo-based contractors since it had no local firms. Some of the same arrangements discussed above may be necessary to carry out the proposed sub-projects.

C. Beneficiary Analysis

The purpose of Provincial Cities is capacity-building and, therefore, the first-order beneficiaries are the municipal and governorate employees who are trained and participate in this project in the course of the strengthening of institutional capacities to identify, develop, implement and manage subproject activities. An estimated minimum of 150 to 225 employees will receive formal and/or on-the-job-training during the life of the project.

The second-order beneficiaries are the residents of the three communities who will enjoy expanded and upgraded services. Annex D estimates that a minimum of 76% (368,400) of the residents of the three cities could benefit but that it is more likely that all 482,700 people will be beneficiaries. This annex documents the priority of water and sewers with regard to both real and felt needs. These two essential services are shown to be of particular benefit to women. Low-income neighborhoods will also benefit greatly.

Annex D identifies issues the cities and their project consultant will address relating to standards, the distribution of different types of outlets, initial and recurring costs, credit arrangements, conservation measures, cultural attitudes toward water, legal rights of landlords, the correlation between sewer and water systems, and possible strategies to encourage consumers to make proper use of water and to follow good sanitation practices.

D. ECONOMIC JUSTIFICATION

The project proposes to spend \$ 100 million in three provincial cities: Menia, Beni Suef and Fayoum. These funds would be spent to rehabilitate and expand the system of potable water supply, sewage wastewater services and city streets.

These cities were chosen for good reason. About 73% of people in the cities do not have adequate access to central water and sewer system. The governorates of Menia, Beni Suef and Fayoum were ranked last among all Egypt's governorates in terms of Physical Quality of Life Index (PQLI). As the PQLI statistic suggests there is a substantial need for social overhead investment in basic infrastructure in the selected provincial cities. About 500 thousand people would derive some benefit from the type of infrastructure that would be provided by the program.

While the Mission is confident that social overhead investment in the target cities will exhibit a favorable economic rate of return, the proposed expenditure of \$ 100 million is not as yet allocated across specific infrastructure projects in the three cities. The process of project selection within each city will be assisted through economic evaluation/appraisal of competing project possibilities. The consultant will be expected to identify and assess project economic benefits and costs and to appraise economic and social actions which need to be taken into consideration in making project selection. For this purpose, the general consultant will be required to provide economic consultants. Their scopes of services will be included in the scope of work for the general consultants.

The "revealed preference" of city officials is, in fact, envisaged to play a major role throughout the project cycle -- from identification/selection through physical completion and beyond to the stage of continuing maintenance of the infrastructure provided by the project.

The Mission believes that the direct involvement of city officials in the project process will provide substantial benefits that promise to be internalized to meet decentralization objectives.

Although we have limited cost data to compare cost advantages of this delivery mode over alternative, we believe that from the point of view of raising consciousness, enthusiasm, concerns and the capacity of local cities' officials and elected council members, the provincial cities project, as currently designed, would be far more cost effective in the long run. In addition, future replication of similar projects would be more easily accomplished under the currently designed project due to the experience gained by local leaders than under the alternative. This building of human capital among provincial cities' leaders, we believe, would be more cost effective in the long run in responding to the future demand of the provincial cities.

While no formal analysis is possible at this point, one may ask what would be the economic benefits of the \$ 100 million if it were invested in the best alternative productive facility instead of in the basic infrastructure as proposed in the Provincial Cities Project. The issue, then, becomes whether the direct and indirect benefits derived from the infrastructure investment compare favorably in magnitude with the economic benefits expected from investing the same amount in productive facilities?

We can provide a national value of infrastructure benefits that must be obtained if the social returns from the infrastructure investment are to be comparable to the economic returns from productive facilities. To estimate the expected economic return from a productive plant, we can use the value of Incremental Capital Output Ratio of 3.6 for Egypt (The average value of ICOR for the past 5 years*.) That is, for every \$ 3.60 investment, value added per year would increase by \$ 1.00. We expect, therefore, if \$ 100 million were invested, approximately \$ 27.8 million of value added would be created each year for the life of the equipment and plant. To compare this stream of economic benefits with the benefits of infrastructure investment, we note that the service life of productive facilities is about a half as long as that of infrastructure (typically, useful life of equipment and plant is about 10 and 25 years respectively, while life of infrastructure is often 30 years or longer.) Therefore, the present value of the stream of yearly benefits of \$ 27.8 million over the 15 year period discounted at a 10% rate is equivalent to the present value of the stream of benefits of \$ 22.4 million over the 30 year period**.

* Estimated ICORs using one year lag between investment expenditures and increases in outputs are given as follows:

| | 1975/76 | 1976/77 | 1977/78 | 1978/79 |
|-------------------------------|---------|---------|---------|---------|
| Investment - Output Ratio (%) | 32.9 | 28.2 | 29.2 | 31.0 |
| Percent change in GDP | 9.1 | 7.0 | 10.6 | 8.2 |
| ICOR | 3.62 | 4.03 | 2.76 | 3.78 |
| Average ICOR = 3.55 = 3.6 | | | | |

** The calculation is as follows:

$$\frac{27.8}{0.1} \left(1 - \frac{1}{(1.1)^{15}} \right) = \frac{X}{0.1} \left(1 - \frac{1}{(1.1)^{30}} \right)$$

and

$$X = \$ 22.43 \text{ million}$$

To make the judgement whether to invest in infrastructure or in productive facilities, we must ask the following questions: Would the economic benefits derived from the basic infrastructure investment compare favorably against the \$ 22.4 million of value added? How much do we have to pay every year to the people of Menia, Beni Suef and Fayoum to forego for the next 30 years the planned investment in water, sewerage and road rehabilitation and expansion? Would the people of these cities take the yearly payment of \$ 22.4 million instead of the infrastructure services? Five years from now, when this project is planned to be completed, population in these cities is estimated to reach approximately 560 thousands, which means that there will be LE 2.25 per person per month available if they choose to forego the water, sewerage and road rehabilitation and expansion*. Assuming an average family size of 5 and the average family income of LE 120 per month in 1986, the necessary compensation would amount to about 9.4% of the family income.

To some people this amount may be attractive enough to prefer to forego the basic infrastructure investment. But it would be difficult to imagine for rapidly expanding provincial cities to ignore problems of inadequate water supply and raw sewerage disposal. What about the additional costs necessary to meet the increased demand for public health services due to rise in infectious diseases? What about the rising infant mortality rate due to insanitary conditions? Although the answer is inherently based on subjective judgement, it would seem, from the point of view of Egypt, that monetary benefits of LE 2.25 per person per month will not be enough to compensate the loss of decent water, sewerage and road services in these cities.

On the basis of the above analysis, we believe that the Provincial Cities Project as designed is qualitative and most cost effective.

* Calculations are as follows: Accruing the foreign exchange shadow price of LE 1.00 = \$ 0.90 and 75% of the benefits is consumed by households (the rest is for industrial and other public organization), total household benefits are valued at LE 15.1 million per year. By dividing among 560 thousand people, we obtain LE 2.25 per person per month.

E. ENVIRONMENTAL ANALYSIS.

An Initial Environmental Examination (Annex H) was prepared in February, 1981 which recommended a negative determination, based upon a positive environmental impact from the project as a whole.

It was recommended in the IEE that environmental assessments would be made as part of each proposed such-project as required.

Mission's Environmental officer concurs with this plan of action.

IV. THE FINANCIAL ANALYSIS

A. Summary Cost Estimate

1) Project Components

In table 4-1 are listed the expected project components along with preliminary estimates of the capital cost of each component. These cost estimates are based on the final report of Parsons Brinkerhoff Sabbour entitled Basic Infrastructure for Provincial Cities and are order of magnitude. Final cost estimates will be developed as part of the project process and will be reviewed and approved by AID before any construction is initiated.

2) Expenditure Schedule

The capital investments in the three provincial cities will be spread over five years. Table 4-2 presents the expected expenditure pattern over the investment period.

3) Operating and Maintenance Costs

In addition to funding the capital investments associated with development of the provincial cities, this project provides a source of funds to supplement operation and maintenance allocations in the three sectors where investments are made. Because recurrent cost funds provided to the cities through the budget process are typically below the level required for adequate maintenance of the water, sewer, and road systems, a maintenance and operations account will be established to be used for supplemental funding in the three cities during the project period. The maintenance and operations accounts will be funded by adding from approximately 1% to 10% (depending upon the analysis and needs of each sub-project) to the sub-project cost.

B. Financial Plan

The project financial plan and disbursement schedule are set forth in tables 4-1 and 4-2

TABLE 4-1
SUMMARY COST ESTIMATE
AND
FINANCIAL PLAN
(000,000 Dollar Equivalents)

| | FX | AID | TOTAL | GOE | PROJECT TOTAL | | |
|-----------------------------------|------|------|-------|------|---------------|------|-------|
| | | LC | | LC | FX | LC | TOTAL |
| Capital Costs: | | | | | | | |
| Water Supply | 14.2 | 14.2 | 28.4 | 7.2 | 14.2 | 21.4 | 35.6 |
| Waste Water | 11.9 | 11.8 | 23.7 | 6.0 | 11.9 | 17.8 | 29.7 |
| Streets | - | 5.1 | 5.1 | 2.6 | - | 7.7 | 7.7 |
| Sub-Total | 26.1 | 31.1 | 57.2 | 15.8 | 26.1 | 46.9 | 73.0 |
| Operations & Maintenance | - | 2.4 | 2.4 | 1.2 | - | 3.6 | 3.6 |
| General Consultant & Egyptian A/E | | | | | | | |
| Firms | 5.5 | 3.0 | 8.5 | 1.5 | 5.5 | 4.5 | 10.0 |
| In Kind/Administrative | - | - | -- | 5.0 | - | 5.0 | 5.0 |
| Contingency | 4.0 | 2.9 | 6.9 | 1.5 | 4.0 | 4.4 | 8.4 |
| Total Funds Required | 35.6 | 39.4 | 75.0 | 25.0 | 35.6 | 64.4 | 100.0 |

C. Financial Analysis

The three provincial city government targeted for assistance through this project are not financially self-sustaining units. Each of them depends heavily on central government budget support in order to carry out its functions. The processes of budgeting, revenue collection and expenditure are designed on the premise that the cities are dependent rather than independent financial and administrative entities. Revenues collected locally are forwarded to the central Ministry of Finance. Expenditure budgets are set by the Ministry of Finance and to a lesser extent by the Governorate. Revenue collections are not predicated on expenditure budgets nor vice versa.

The magnitude of the revenue - expenditure gap is illustrated in Table 4-3.

Table 4-2
(000,000 Dollar Equivalents)
PROJECT DISBURSEMENT SCHEDULE

| | 1st year | | 2nd year | | 3rd year | | 4th year | | 5th year | | TOTAL | |
|---|------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|------------|-------------|-------------|
| | AID | GOE | AID | GOE | AID | GOE | AID | GOE | AID | GOE | AID | GOE |
| <u>Foreign Exchange</u> | | | | | | | | | | | | |
| Water Supply | - | - | 2.0 | - | 3.0 | - | 5.1 | - | 4.1 | - | 14.2 | - |
| Waste Water | - | - | 1.5 | - | 3.0 | - | 4.4 | - | 3.0 | - | 11.9 | - |
| General Consulting Services | .3 | - | 1.0 | - | 1.4 | - | 1.9 | - | .9 | - | 5.5 | - |
| Contingency | | | | | 1.0 | | 2.0 | | 1.0 | | 4.0 | |
| Sub-Total | .3 | - | 4.5 | - | 8.4 | - | 13.4 | - | 9.0 | - | 35.6 | - |
| <u>Local Currency</u> | | | | | | | | | | | | |
| Water Supply | - | - | 1.8 | .9 | 2.8 | 1.4 | 5.0 | 2.5 | 4.6 | 2.4 | 14.2 | 7.2 |
| Waste Water | - | - | 1.5 | .8 | 3.3 | 1.6 | 4.0 | 2.0 | 3.0 | 1.6 | 11.8 | 6.0 |
| Streets | 1.0 | .5 | 1.5 | .8 | 1.1 | .5 | 1.0 | .6 | .5 | .2 | 5.1 | 2.6 |
| General Consulting Services and Egyptian A/E Services | .4 | .2 | .8 | .4 | .9 | .4 | .6 | .3 | .3 | .2 | 3.0 | 1.5 |
| Operations & Maintenance Supplement | .4 | .2 | .4 | .2 | .4 | .2 | .6 | .3 | .6 | .3 | 2.4 | 1.2 |
| In kind/Administrative | - | .1 | - | .9 | - | 1.0 | - | 1.5 | - | 1.5 | - | 5.0 |
| Contingency | - | - | - | - | - | - | 1.4 | .8 | 1.5 | .7 | 2.9 | 1.5 |
| Sub Total | 1.8 | 1.0 | 6.0 | 4.0 | 8.5 | 5.1 | 12.6 | 8.0 | 10.5 | 6.9 | 39.4 | 25.0 |
| TOTAL | 2.1 | 1.0 | 10.5 | 4.0 | 16.9 | 5.1 | 26.0 | 8.0 | 19.5 | 6.9 | 75.0 | 25.0 |

Based on an estimated foreign exchange cost of \$ 35.6 million (an AID cost item) and the in kind contribution of \$ 5 million equivalent by the GOE the balance of the project cost or \$ 59.4 million was allocated on a 66% (AID) / 34% (GOE) basis. It is understood that the dollar component of the project cost may increase or decrease as firm cost figures are obtained and as each subproject is approved. To adjust for these changes and to ensure that there are sufficient dollars in the project to cover the foreign exchange cost an analysis of the FX cost of the project will be made jointly by the GOE/AID during the first month of each calendar year. If the dollar component increases or decreases, the percentage of the pound project cost to be funded by both the GOE/AID will be adjusted.

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TABLE 4-3

LOCAL REVENUE - EXPENDITURE GAP
1978 - 1980

| | <u>Beni Suef</u> | <u>Fayoum</u> | <u>Minia</u> |
|-------------------------|------------------|---------------|--------------|
| 1978 | | | |
| Revenue Collected | 654,373 | 585,479 | Information |
| Expenditure | 768,543 | 2,234,434 | not |
| Gap (GOE Subsidy) | 114,170 | 1,648,955 | available |
| Gap as % of Expenditure | 15% | 74% | |
| 1979 | | | |
| Revenue Collected | 270,270 | 508,188 | |
| Expenditure | 868,381 | 1,808,168 | |
| Gap (GOE Subsidy) | 598,111 | 1,299,980 | |
| Gap as % of Expenditure | 69% | 72% | |
| 1980 ¹ . | | | |
| Revenue Collected | 129,921 | 176,273 | |
| Expenditure | 752,855 | 1,352,946 | |
| Gap (GOE Subsidy) | 622,934 | 1,176,673 | |
| Gap as % of Expenditure | 83% | 87% | |

Note 1.: 1980 figures for first six months only.

The problems engendered by this system of financial dependence include:

1. A chronic lack of capital budget funds at the city level compared to locally perceived needs;
2. A lack of recurrent budget funds relative to the expected cost of properly operating and maintaining city services;
3. A lack of incentive to develop municipal financial management and information systems.

Tables 4-4 and 4-5 indicate the degree to which the three provincial cities fail to obtain the necessary recurrent and capital budgets to maintain and develop their municipal services.

TABLE 4-4
LE

(BABS 1 and 2)
Recurrent Budget 1.: Needs Vs. Actual Budget Allocations

| <u>City/Year</u> | <u>1. Budget Request</u> | <u>2. Actual Allocation</u> | <u>2 as % of 1.</u> |
|------------------|--------------------------|-----------------------------|---------------------|
| Beni Suef | | | |
| 1978 | 1,372,671 | 208,264 | 15% |
| 1979 | 1,660,257 | 298,830 | 18% |
| 1980 | 1,549,708 | 886,521 | 57% |
| Fayoum | | | |
| 1978 | 1,488,760 | 467,567 | 31% |
| 1979 | 1,562,407 | 208,763 | 13% |
| 1980 | 1,404,980 | 223,592 | 16% |
| Minia | | | |
| 1978 | 1,100,000 | 987,759 | 90% |
| 1979 | 1,100,000 | 865,744 | 79% |
| 1980 | 1,156,000 | 889,898 | 77% |

Note 1.: not including the personnel budget.

Table 4-5
LE

(BAB 3)
Capital Budget: Needs vs. Actual Budget Allocations

| <u>City/Year</u> | <u>1. Budget Request</u> | <u>2. Actual Allocation</u> | <u>2 as % of 1.</u> |
|------------------|--------------------------|-----------------------------|---------------------|
| Beni Suef | | | |
| 1978 | 2,505,000 | 30,000 | 1% |
| 1979 | 2,633,000 | 80,000 | 3% |
| 1980 | 1,900,000 | 498,265 | 26% |
| Fayoum | | | |
| 1978 | 2,665,720 | 1,282,700 | 48% |
| 1979 | 3,414,500 | 965,500 | 28% |
| 1980 | 3,901,700 | 1,300,000 | 33% |
| Minia | | | |
| 1978 | 3,000,000 | 1,000,000 | 33% |
| 1979 | 5,000,000 | 750,000 | 15% |
| 1980 | 5,000,000 | 1,310,000 | 26% |

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The project addresses above mentioned problems by:

1. Making additional capital investment grants available to the cities outside of their capital budget allocation;
2. Allocating from 1% to 10% of subproject costs to cover short falls in operation and maintenance requirements under the cities' recurrent budgets for water, sewers, and roads;
3. Providing technical assistance to the cities finance departments to help them develop adequate cost accounting, utility accounting, and management information systems.

The capital investment grants will be allocated to various public works projects in the sectors which the three cities deemed to have highest priority: water, sewers, and roads.

D. Establishment of Special Account

The long-term financial viability of the three cities hinges on their ability to become less dependent on the central Ministries. Law 43 of 1979 provides a first step in this direction by permitting cities and governorates to establish Special Accounts. These Special Accounts are to be used for:

1. Financing local production and service enterprises - according to a local plan - within the framework of the general plan of the State.
2. Completion of projects - set forth in the general plan - for which the budget appropriations fall short of completion.
3. Raising the standard of local services.
4. Financing vital, urgent services

In practice, the three target cities have created Special Accounts but have utilized them primarily to invest in new local productive enterprises.

The funds currently available for these Special Accounts are quite limited in magnitude. The permitted sources of funds include:

1. Fees and tax surcharges imposed by the popular council of the jurisdiction for the benefit of this account.

2. Profits of the productive enterprises financed by this account.
3. Donations, grants, and endowments which the popular council approves for allotment to this account.
4. A portion of the local revenues collected in excess of the revenue target established by the Ministry of Finance.

In practice, the Special Account funds are currently derived from very limited fees and surcharges imposed by local popular councils. (see Annex O). A covenant will be included in the project grant agreement stipulating that the cities will extend their best efforts to increase yearly the amount of local revenues collected for their Special Accounts during the project period.

In order to further encourage the development of local financial decentralization initiated with Law 43 of 1979, this project will make the maximum use possible of the governorate and city Special Accounts. In this way the cities will gain experience in using their Special Accounts to fund major public works projects. AID funds destined for the various urban improvement projects will be disbursed to the governorate's Special Non-Interest Bearing Account. Each governorate will then transfer funds provided to them to the city's Special Non-Interest Bearing Accounts to cover project expenditures. Each city will manage its Special Non Interest Bearing Accounts (one for each project undertaken in the city) and prepare appropriate accounting statements for the purpose of managing the funds. These procedures will provide the cities with experience in managing and accounting for significant capital investment funds.

E. Reporting

Governorates/Cities will submit quarterly implementation and financial reports to the Ministry of Planning and AID. The quarterly reports will include, but not be limited to a record of contractual obligations, procurement, disbursements, projected quarterly sub-project cash flow needs, and a status of approved sub-projects.

V. PROJECT IMPLEMENTATION

A. General Description

Key to the introduction of better planning for infrastructure at the local government level, one of the more important elements in more effective and autonomous operations, is the development of long term comprehensive systems plans for water and sewer. This project also has as one of its crucial components the provision of resident advisors (both US and Egyptian) in each of the three cities. Both of these factors, long term comprehensive systems plans for water and sewer, and resident advisors, will be the responsibilities of the general consultants under direct AID Contract.

Best estimates indicate that initiation of services by the general consultants and Egyptian firms will not begin until approximately eight months from project authorization. Therefore, in order to get the project off the ground and address the high priority needs of the cities the following approach will be used after the Grant Agreement has been signed during the period until the general consultants are operational.

The USAID, after coordinating with the Project Steering Committee (PSC), will request each city to submit, through the governorate, requests for financing of high priority street paving, repair, rehabilitation and cleaning of water and sewer facilities, construction of high priority water distribution and sewer collector systems and construction and installation of any major items for the water and sewer systems which are ready for construction.

USAID will review with each city and governorate the appropriateness of the items submitted, whether or not they can clearly be accommodated within any longer range plans, whether sufficient feasibility work has been done, and whether the necessary final designs and cost estimates have been completed. Engineering costs for proposed projects are eligible items. To cover those items ready to go, USAID, with the request of the PSC, will disburse funds to Special Accounts which have been opened at the governorate level for this project to cover project needs on a quarterly basis. The governorate would in turn disburse to Special Accounts opened by the cities but, in this case, for specific sub-projects where final costs have been approved by AID, such as a Special Account for street paving, for expansion of the water distribution network to area "x" of the city, for rehabilitating water pipes and for operations and maintenance. All funds provided under this project will be deposited in non-interest bearing Special Accounts. The cities will, with the aid of the general and Egyptian consultants, be the formal contracting authority for all contracts entered into for engineering work, construction and supervision efforts to the extent practicable. The governorate may be obliged to assume the contracting role until proper mechanisms and

trained personnel are available within the cities administrations. The city would draw down these accounts based on actual expenditures. The determination of the amount of disbursement of funds has been set out in the Financial Analysis section of this project paper, Section IV. U.S. Dollars alone will be used for the procurement and shipment of off-shore (U.S.) equipment and materials, with the local expenditures being allocated on an 66% U.S. and 34% GOE basis.* The determination of the amount of the Pound advances will be put forward to USAID by each of the cities on a quarterly basis to cover the anticipated expenses for the following quarter, based upon submission of anticipated expenditures under each on-going subproject, i.e., construction contracts beginning or underway, or A/E expenditures for design of new projects, or supervision costs of current construction contracts. As an example, the tabular presentation below, although perhaps greatly simplified, may serve to better illustrate the advance disbursement mechanisms envisioned for positive cost control and effective, efficient project implementation:

Estimated Expenditures
for the Quarter beginning
_____, 1982 to _____, 1982

CITY: MENIA

| <u>Contracts</u> | <u>U.S. Dollar Obligations</u> | <u>Estimated LE Expenditures</u> |
|---|--------------------------------|----------------------------------|
| 1. Egyptian A/E Firm #1 for design of collectors and S.T. Plant | -0- | 57,500 |
| 2. Egyptian A/E Firm #2 for supervision of 17 kilometers of paving | -0- | 18,700 |
| 3. XYZ Construction Company for paving 17 kilometers (see #3 above) | 5,100 | 143,800 |
| TOTAL MENIA | 5,100 | 220,000 |

Assuming for illustrative purposes, each city estimated equal quarterly expenditures for the succeeding quarter, the total requirements would be \$15,300 and LE 660,000. Once approved by the governorate and USAID, the total pound advances to the Special Accounts would be as follows:

* See Section IV, Financial Analysis, for the derivation of the allocation percentages listed. It should be noted that this ratio is only for general guidance and will vary depending upon FX allocations.

| | <u>\$</u> | <u>LE</u> | |
|--------------|-----------|-----------|-------|
| <u>USAID</u> | 15,300 | 435,600 | (66%) |
| <u>GOE</u> | -0- | 224,400 | (34%) |
| | <hr/> | <hr/> | |
| TOTAL | 15,300* | 660,000 | |

Each LE pound Special Account would receive its sub-allocation from the USAID of 66% of the LE Pound estimated expenditures. The GOE Ministry of Planning would advance each Special Account the pro-rated 34% of LE estimated expenditures. It is assumed that during the first year of the project, most of the financing will go for street paving and rehabilitation of water and sewer pipes. Distribution and collector systems for water and sewers, storage tanks, among other things, will require some feasibility work and final designs which, if not already done (and review to date, indicates they are not), will require some time to do. As mentioned earlier, however, the Grant Agreement will be structured so as to be flexible enough to include high priority items approved by USAID other than roads, water or sewer.

With the signing of the general consultant's contract, the project will enter its final implementation phase. The arrival of resident advisors in each city, the establishment of a "headquarters" nucleus by the consultant and the availability of short term expertise in conjunction with appropriate levels of Egyptian A/E representation will enable the project to proceed with its full complement of services and management.

The completion of long term comprehensive water and sewer plans will take at least a year. However, with the resident advisors in place (see general consultant's scope of work in Annex J) and the availability of short term expertise, the financing of capital components can be accelerated. In addition, the technical assistance aspects of the project will begin**.

* The U.S. Dollar costs will be reimbursed for U.S. goods and services will be a direct disbursement by A.I.D.

** Specific projects will be prepared by qualified Egyptian engineering consulting firms under contract to each city/governorate, supervised and under the general guidance of the general consultants.

The resident advisors will work as special advisors to the executive councils (specifically the mayors). As soon as they have arrived and assessed the situation, they will arrange for detailed diagnostic analyses by short term experts of the cities' financial management practices and procedures, the budgeting and planning process, and the organization and management, including personnel functions. An additional diagnostic analysis will also be done on the maintenance and operations functions.

Based on these analyses, the resident advisors will work with both governorate and city management to develop assistance plans in each of these areas. Based on these assistance plans, training programs and short term technical assistance will be initiated. Concomitantly with the more technical assistance-oriented nature of the work, the resident advisors and Egyptian A/E's as appropriate, will help prepare annual budgeting plans, develop cost accounting procedures, write personnel descriptions and develop maintenance programs, as well.

On the capital side, the preparation of comprehensive long-term plans will start immediately upon arrival of the U.S. team. However, studies and designs for certain components mentioned above, e.g. distribution networks, water storage facilities, etc., should have been completed by local A/E's. In addition, work on the long-term plans should begin to identify high priority items on which feasibility studies can begin prior to actual completion of the plan.

The general consultant, working in concert with Egyptian A/E firms for specific projects, will work with the governorates and cities in reviewing work ready for financing, so when requests are forwarded to AID, they will contain the consultant's review and recommendations. The thrust, then, is to reduce the need for detailed AID review. The intent is to shift this review and approval function to the municipal level with sufficient input from the general consultants and Egyptian consultants to ensure adequacy and to provide the level of learning experience necessary for municipal technical personnel. During this period, the general and Egyptian consultants will also be working with the municipality in developing scopes of work and contracting for the various components that move ahead, both engineering and construction.

As the move into Year Three occurs, and the long-term development plans have been completed, reviewed and accepted, feasibility studies and design can be started on all the remaining major items identified as priority components of the systems. Fast-tracking of many sub-project components will be used whenever practical.

As the cities increase the scope of their public infrastructure, there must be a concomitant increase in the operating and maintenance budgets which are already strained at the current levels of infrastructure. The Grant Agreement will provide that supplemental operating and maintenance budget requests be funded outside of the annual BAB 1 and BAB 2 budgets. These supplemental requests will be developed by the cities with the assistance of the general consultants and with Egyptian A/E firms as appropriate. Funds will be provided directly to the Special Accounts in each city designated for these supplemental operating and maintenance funds. It is envisioned that each Special Account for construction will have a series of categories specifically allocated for construction activities, future maintenance and future operational efforts. The maintenance and operations accounts will be funded by adding from approximately 1% to 10% (depending upon an analysis and a determination of the estimated operational and maintenance needs of each specific project) to the 66/34% allocation described in the above tabular example, so that the total LE Pound input to each quarterly advance will be from 101% to 110% of the stated and approved quarterly requirement. The excess over 100% will be deposited in the maintenance and operational accounts. Obviously, there will be no need for an operations category in a street paving or resurfacing effort, and an absolute minimum requirement for maintenance, such as re-sealing each four years. Conversely, the operations and maintenance category within the Special Account for a sewage or water treatment plant will be sizeable. Each category of construction effort will require an entirely different mix of maintenance and operational funds, and yet will be relatively easy to determine.

B. Municipal Responsibilities:

Investment project cost estimates will be prepared in the first instance by the respective water, sewer and roads departments in the three cities with the assistance of the general consultants. These requests will be reviewed by the municipal executive council (headed by the mayor) and submitted to a governorate level technical committee established for this project. (During project design it became apparent that the governorates will clearly play a significant role in this project in that it has major implications in the decentralization process relative to cities. The exact composition of this committee will probably vary in the different governorates and will be established at the time project execution begins.) After review and approval (with any modifications) by the governorate technical committee, the city elected council will endorse the proposals and the governor will forward the proposal to AID and the PSC for approval.

C. Procurement of Goods and Services

All dollar procurement actions using AID furnished funds will be conducted by Host Country contracting procedures in conformity with AID Handbook 11, except that the general consultant will be contracted directly by AID in conformity with AID Handbook 14. AID direct contracting for the general consultants services is necessary because there is no Egyptian administrative unit which serves all three provincial cities and yet is not a central GOE agency. The project also will involve a large amount of local cost financing which will involve the procurement of goods and services in Egypt pursuant to the rules of AID Handbook 1, Supplement B, Chapter 18, "Local Cost Financing". See Annexes P and Q for additional information.

The general consultant in concert with Egyptian engineering firms, will be responsible for providing all assistance necessary to enable the three provincial cities to undertake contracting for engineering design and construction services. Similarly, the general consultant will assist the cities with the more complex equipment and material procurements involving tendering in the U.S. Given the standard nature of the equipment and materials and the routine nature of the construction, no unusual or difficult procurement problems are foreseen.

D. Flow of Funds

The AID and GOE local currency contributions will be combined for the purpose of providing funds for approved public works in the three cities. In most cases, AID's local currency inputs will be made on the basis of the following procedure*. The mechanism for administering the program is outlined below, and presented in schematic form in Figure 1 on the following page.

Step 1: The governors of each of the three target governorates will forward proposals to the Project Steering Committee (PSC) composed of representatives of the governorates, the cities, Ministry of Planning, Ministry of Finance, GOPW and GOSSD. The proposals will contain feasibility studies prepared by the city and approved by the governor (including technical, cost, economic, social, and environmental analyses, where applicable) for the projects to be funded. The PSC will review the proposals for completeness and if satisfactory, an advance will be made by AID and the GOE.

Step 2: Once the PSC has approved the sub-project, AID and the Ministry of Planning will transfer their respective local currency shares to the governor's Law 43 Special Account which will have been established for the sole purpose of receiving, disbursing, and accounting for the sub-project costs.

*For those sub-projects that lend themselves to the Fixed Amount Reimbursement method, procedures in Handbook 3 will be used.

Step 3: The city will then forward detailed implementation plans for each project covered by the sub-project Special Accounts. These plans will include schedules for contracting, detailed engineering, equipment procurement, and construction/erection along with an estimated expenditure schedule. The project plans will be reviewed by the governorate's technical committee and release of funds to start implementation will be approved. Funds will be released according to the approved expenditure schedule as revised during the course of project implementation.

Step 4: As project implementation proceeds, invoices for goods and services will be reviewed by the relevant Egyptian A/E's, city engineers and the U.S. resident general consultant. Approved invoices will be forwarded to the Special Account controller for disbursement and accounting according to established city expenditure control procedures.

E. Government Actions

By the time the grant agreement for this project is signed, the GOE shall have formed a Project Steering Committee (PSC) which will serve as the top level coordinating group for the project. It is contemplated that the following governmental units will be members of the PSC because the project will initiate actions in their spheres of responsibility on an ad hoc basis:

- Ministry of Planning.
- Ministry of Finance.
- The three Governorates.
- The three Cities.
- The Ministry of Development, Housing and Land Reclamation, composed of:
 - The General Organization for Potable Water.
 - The General Organization for Sewerage and Sanitary Drainage, and eventually
- The National Organization for Potable Water and Waste Water* Projects.

No legislation actions are necessary to implement the overall project.

Subject to revision of title.

F. Project Monitoring:

USAID/Cairo will be responsible for AID project monitoring. Within the Mission, primary monitoring responsibility will rest with the office of Urban Administration and Development (DRPS/UAD). The project manager will be a capital development officer assisted by a civil engineer as required.

Implementation of new and/or revised management systems/procedures and construction of public works will be monitored continuously in all three cities by the general consultant and Egyptian firms. Monthly progress reports will be prepared by the general consultant and submitted to AID. The form and content of these reports will be specified in the contract with the general consultant.

EVALUATION PLAN

The success of the project in achieving its objectives depends on the accuracy, credibility, and acceptance of periodic evaluation applied to various components of the project. The GOE and USAID will jointly conduct or contract for evaluations of project progress and results as mutually agreed to support timely implementation and assurance of accomplishment of agreed objectives.

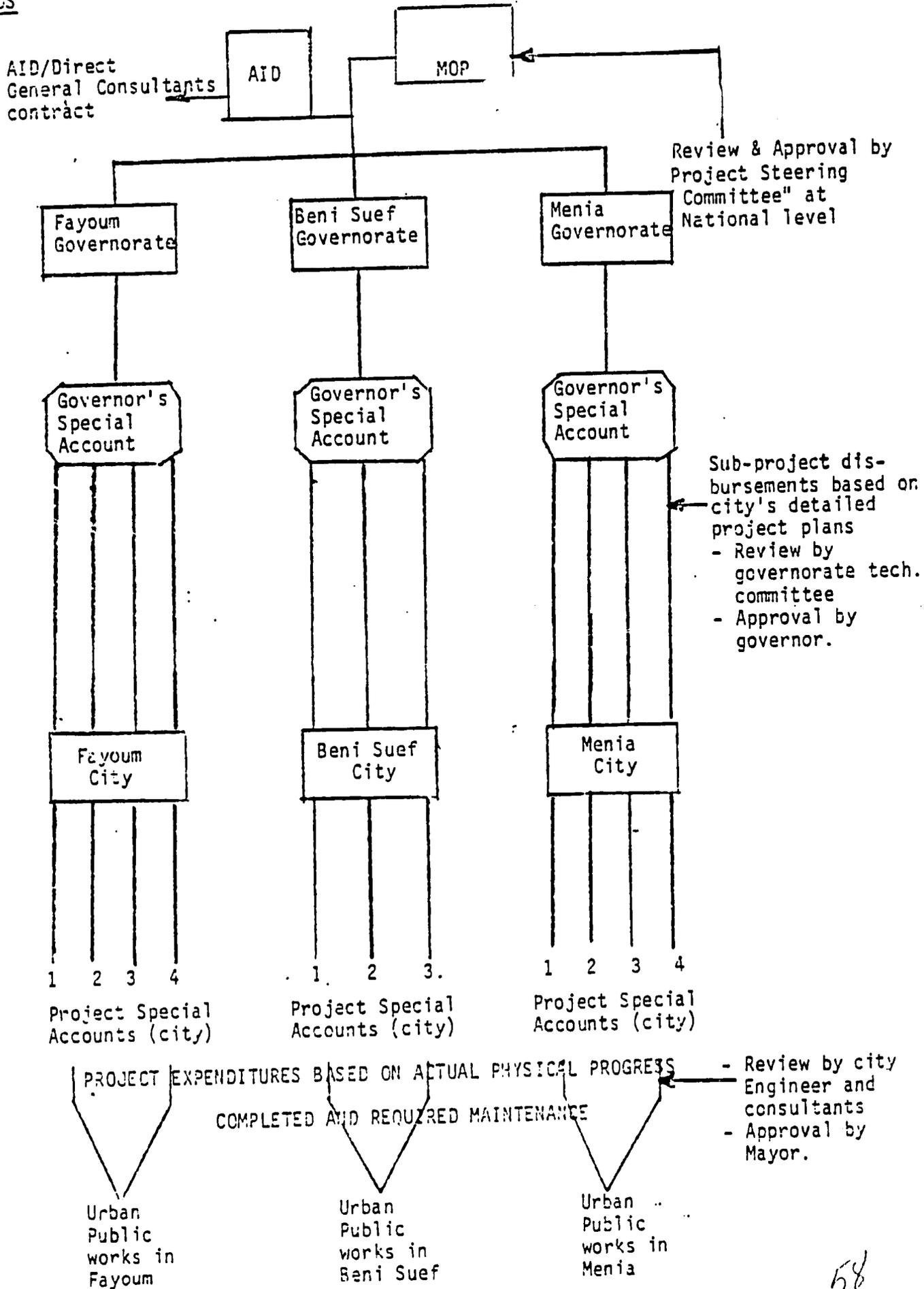
The periodic and terminal evaluation of the project will be designed to:

1. Assess the impact of the Provincial Cities Development Project upon both its primary and secondary beneficiaries as noted in Annex D.
2. Assessment will be made as to the nature and the degree of participation of the beneficiaries in sub-project selection, planning, and implementation.
3. Assess the impact of the project on the planning and implementation capability and productivity of the governorates and the cities.
4. Assessment will be made as to the changes as a result of decentralization in the delegation of authority, responsibility, and resources by the central ministries and the Governorates to the cities.

The estimated time required for the evaluation are four man months each (for an interim and final evaluation) at a maximum cost of \$ 100,000.

FIGURE 1

FLOW OF FUNDS



VII. CONDITIONS AND COVENANTS

1. Conditions Precedent

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement except with respect to goods or services to be procured or arranged directly by AID, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to AID:

A statement of the name of the person holding or acting in the office of the Grantee specified in the Agreement to be financed hereunder, and any additional representatives together with a specimen signature of each person specified in such a statement.

2. Subsequent Conditions Precedent

Prior to the disbursement of funds by AID for the purpose of financing capital sub-project costs the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to AID:

Evidence of the establishment of separate Special Accounts in each recipient city/governorate to be used to pay costs of sub-projects financed under the Provincial Cities Development Program along with a written statement of the procedures and criteria which will be applied to disbursements from the funds, including capital, maintenance and operational costs.

3. Covenants

A. Continuation of the Project Steering Committee

The Grantee shall continue to maintain and operate a steering committee with such authorities and responsibilities as are required to enable it to serve as the entity responsible for coordination of the activities financed under this project.

B. Project Staffing

The Grantee will take appropriate steps to assure that the Cities and the Governorates assign sufficient staff members to the Project for the purposes of carrying out implementation activities.

- C. Retention of Revenue: The Grantee will exercise its best efforts to develop a system of revenue retention for potable water for each Governorat in the Project.

- D. The Grantee agrees that (a) any interest earned or accrued on the funds made available herein will be refunded to A.I.D.; (b) an appropriate refund to A.I.D. will be made in the event of disallowances in accordance with the terms or implementation procedures of this program; and (c) a refund or credit will be made as A.I.D. may deem appropriate in the event funds are not expended.

UNCLASSIFIED
Department of State

INCOMING
TELEGRAM

PAGE 01 CAIRO 18092 041725Z 8929 043629 AID1078
ACTION AID-35

ACTION OFFICE NETC-04
INFO AANE-01 NEDP-02 NEEI-03 GC-01 GCFL-01 GCNE-01 FM-02
CMGT-02 CTR-02 RELO-01 TELE-01 MAST-01 /022 A2 X04

INFO OCT-01 NEA-07 /043 W
-----137262 041737Z /42

O 041724Z AUG 81
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC IMMEDIATE 4836

UNCLAS CAIRO 18092

AIDAC

E. O. 12065: N/A
SUBJECT: REPORT OF PRC FOR PROVINCIAL CITIES
- (263-0127) PP

REF: (A) STATE 200468

1. PER PARA 2 (D), GRANT APPLICATION LETTER DATED 7/15/81
IS COPIED HEREWITH:

QUOTE: MR. DONALD S. BROWN, MISSION DIRECTOR, AGENCY FOR
INTERNATIONAL DEVELOPMENT, CAIRO, EGYPT. DEAR MR. BROWN:
THE GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT HAS BEEN
WORKING WITH THE AGENCY FOR INTERNATIONAL DEVELOPMENT FOR
OVER A YEAR TO DEVELOP A PROJECT OF TECHNICAL AND CAPITAL
ASSISTANCE TO THE PROVINCIAL GOVERNORATES OF MENIA, BENI
SUEF, AND FAYOUM. A STUDY OF THE THREE PROVINCIAL CITIES
WITHIN THESE GOVERNORATES WAS CARRIED OUT BY P. B. SABBOUR
AND COMPLETED IN MARCH 1981. THIS STUDY IDENTIFIED THE
HIGHEST PRIORITY NEEDS OF EACH OF THE CITIES TO BE WATER
AND SEWER SYSTEMS. ANOTHER PRIORITY WAS THE PAVING OF
STREETS.

SINCE THAT TIME, USAID AND THE GOVERNMENT OF EGYPT HAVE DE-
VELOPED A PROJECT TO ASSIST IN MEETING THESE NEEDS. THE
ESTIMATED FUNDING REQUIREMENTS FOR THIS ASSISTANCE ARE U. S.
\$100 MILLION EQUIVALENT. THE GOVERNMENT OF THE ARAB
REPUBLIC OF EGYPT IS PREPARED TO ALLOCATE THE EQUIVALENT
IN EGYPTIAN POUNDS OF U. S. \$20 MILLION AND \$5 MILLION "IN-
KIND CONTRIBUTION" TO THIS PROJECT AND REQUESTS THE AGENCY
FOR INTERNATIONAL DEVELOPMENT TO MAKE AVAILABLE A GRANT
OF U. S. \$76 MILLION FOR THE REMAINDER OF THE COSTS. YOURS
SINCERELY, FOUAD ISKANDAR, SENIOR UNDER-SECRETARY OF STATE
FOR ECONOMIC COOPERATION WITH U. S. A. END QUOTE.

2. SEPTEL FOLLOWS REGARDING OTHER ISSUES PER REFTEL.
PRECHT

UNCLASSIFIED

61

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

PROJECT AUTHORIZATION

Name of Country: Arab Republic Name of Project: Provincial
of Egypt Cities
Development

Number of Project: 263-0127

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Provincial Cities Development Project for the Arab Republic of Egypt involving planned obligations of not to exceed \$75,000,000 in grant funds over a five-year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

2. The Project consists of technical and capital assistance for the design, management and construction of urban infrastructure in Egypt. It will focus on improving and expanding a continuing capacity in three governorates and their capitals to plan, manage, finance, implement and maintain locally chosen and constructed urban infrastructure projects. The Project will finance technical advisory services, training and research and evaluation. In addition, it will finance the construction of locally selected infrastructure projects.

3. The Project Agreement which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Goods and Services

Except as A.I.D. may otherwise agree in writing, or as provided in paragraph (2) below, goods and services, except for ocean shipping, financed by A.I.D. under the project shall have their source and origin in the United States or in the Arab Republic of Egypt. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Conditions Precedent

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, except with respect to goods or services to be procured or arranged directly by A.I.D., the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D. a statement of the name of the person holding or

acting in the office of the Grantee specified in the Agreement to be financed hereunder, and any additional representatives, together with a specimen signature of each person specified in such statement.

c. Subsequent Conditions Precedent to Disbursement

(1) Prior to any disbursement of funds, or to the issuance of any commitment documents under this Grant for any subprojects, the Grantee and A.I.D. shall agree on the general criteria for the eligibility of subprojects for financing and general guidelines for the allocation and reallocation of A.I.D. funds among the participating provincial cities.

(2) Prior to the disbursement of funds by A.I.D. for the purpose of financing capital (new development) subproject costs, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to A.I.D., evidence of the establishment of separate special accounts in each recipient city/governorate to be used to pay costs of maintaining subprojects financed under the provincial cities program along with a written statement of the procedures and criteria which will be applied to disbursements from the funds, including capital, maintenance and operational costs.

(3) Prior to any disbursement of funds or the issuance of any commitment documents under this Grant for rehabilitation or any other subproject activities, the Grantee shall, except as A.I.D. may otherwise agree in writing, designate, establish and authorize a steering committee, acceptable to A.I.D., with such defined authorities and responsibilities necessary for coordination of activities financed under this project.

d. Covenants

The Grantee shall covenant as follows:

(1) Continuation of the Steering Committee: The Grantee shall continue to maintain and operate a steering committee with such authorities and responsibilities as are required to enable it to serve as the entity responsible for coordination of the activities financed under the Project.

(2) Project Staffing: The Grantee will take appropriate steps to assure that city councils and the Governorates assign sufficient staff members to the project for purposes of carrying out implementation activities.

(3) Retention of Revenue: The Grantee will exercise its best efforts to develop a system of revenue retention for potable water for each Governorate in the Project.

(4) The Grantee agrees that:

(a) any interest earned or accrued on the funds made available herein will be refunded to A.I.D.;

(b) an appropriate refund to A.I.D. will be made in the event of disallowances in accordance with the terms or implementation procedures of this program; and

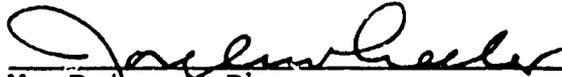
(c) a refund or credit will be made as A.I.D. may deem appropriate, in the event funds are not expended.

(5) The Grantee shall plan, institute and maintain a plan for a staged program or programs of local revenue-generation, agreeable to A.I.D., that will cause or sustain the financial viability of the sewer and water projects supported under this Grant.

4. Statement on 612(b): Based on the justification set forth in Annex Q of the Project Paper, I hereby determine in accordance with Section 612(b) of the Act, that the expenditure of United States dollars for the procurement of goods and services in Egypt is required to fulfill the purposes of this Project; the purposes of this project cannot be met effectively through the expenditure of U.S.-owned local currencies for such procurement; and the administrative official approving local cost vouchers may use this determination as the basis for his certification as required by section 612(b) of the Act.

5. Based on the justification set forth in Annex P of the Project Paper, I hereby waive the provision of AID H.B. 1, Supplement B, Ch. 20 A2(b) which limits the total cost of imported shelf items irrespective of origin, which can be procured for a FAR Project activity.

I hereby determine that, based upon the contents of Annex P, exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.


M. Peter McPherson
Administrator

Date August 25, 1981

Clearances:

AA/NE:WAFord: (A) date 8-27-81

NE/TECH:LReade: LR date 8/20/81

GC:JRBolton: LB date 8-27-81

A-AA/PPC:LSmucker LB date 8/29/81

GC/NE:TCarter: jlo: 8/20/81

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Ocean shipping financed by AID under the project shall, except as AID may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Conditions Precedent

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, except with respect to goods or services to be procured or arranged directly by AID, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to AID:

A statement of the name of the person holding or acting in the office of the Grantee specified in the Agreement to be financed hereunder, and any additional representatives, together with a specimen signature of each person specified in such statement.

c. Subsequent Conditions Precedent

Prior to the disbursement of funds by AID for the purpose of financing capital (new development) subproject costs the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish in form and substance satisfactory to AID:

Evidence of the establishment of separate Special Accounts in each recipient city/governorate to be used to pay costs of maintaining subprojects financed under the Provincial Cities program along with a written statement of the procedures and criteria which will be applied to disbursements from the funds, including capital, maintenance and operational costs.

d. The Grantee shall covenant as follows:

(1) Continuation of the Steering Committee: The Grantee shall continue to maintain and operate a steering committee with such authorities and responsibilities as are required to enable it to serve as the entity responsible for coordination of the activities financed under the Project.

(2) Project Staffing: The Grantee will take appropriate steps to assure that city councils and the Governorates assign sufficient staff members to the Project for purposes of carrying out implementation activities.

(3) Retention of Revenue: The Grantee will exercise its best efforts to develop a system of revenue retention for potable water for each Governorate in the Project.

(4) The Grantee agrees that (a) any interest earned or accrued on the funds made available herein will be refunded to A.I.D.; (b) an appropriate refund to A.I.D. will be made in the event of disallowances in accordance with the terms or implementation procedures of this program; and (c) a refund or credit will be made as A.I.D. may deem appropriate in the event funds are not expended.

4. Statement on 612 (b): Based on the justification set forth in Annex Q of the Project Paper, I hereby determine in accordance with Section 612 (b) of the Act, that the expenditure of United States dollars for the procurement of goods and services in Egypt is required to fulfill the purposes of this project; the purposes of this project cannot be met effectively through the expenditure of U.S. owned local currencies for such procurement; and the administrative official approving local cost vouchers may use this determination as the basis for his certification as required by section 612 (b) of the act.
5. Based on the justification set forth in Annex P of the Project Paper, I hereby waive the provision of AID H.B. 1, Supplement B, Ch 20 A2(b) which limits the total cost of imported shelf items irrespective of origin, which can be procured for a FAR Project activity.

I hereby determine that, based upon the contents of Annex P, exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

Annex C

5C(2) - PROJECT CHECKLIST

A. GENERAL CRITERIA FOR PROJECT

1. Continuing Resolution Unnumbered; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?

(a) Congress will be notified in accordance with regular agency procedures.

(b) The intended obligation is within the level of funds appropriated for Egypt.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes

(b) Yes. The financial plan and analysis are part of the Project Paper.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required other than action notifying that the Grant Agreement is signed.

4. FAA Sec 611(b); Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? N/A
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? Yes
6. FAA Sec 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. This project will encourage the strengthening of Egyptian private enterprises providing the services required to execute sub-projects.

- | | | |
|-----|--|---|
| 8. | <u>AA Sec. 601(h)</u> . Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). | US private enterprises will provide the technical services required for the project. |
| 9. | <u>FAA Sec. 612(b), 636(h); Continuing Resolution Sec. 508</u> . Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. | <p>(a) The GOE will contribute \$25,000,000 equivalent in its own owned local currency.</p> <p>(b) The project paper contains a request for a 612 (b) determination which will permit the use of U.S. dollars to pay for local costs.</p> |
| 10. | <u>FAA Sec. 612(d)</u> . Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? | Yes. See Annex P and/or Q the Project Paper. |
| 11. | <u>FAA Sec. 601(e)</u> . Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? | Yes |
| 12. | <u>Continuing Resolution Sec. 522</u> . If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? | N/A |

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project
Criteria

- a. FAA Sec. 102(b), 111, 113,
281(a). Extent to which
activity will (a)
effectively involve the poor
in development, by extending
access to economy at local
level, increasing
labor-intensive production
and the use of appropriate
technology, spreading
investment out from cities
to small towns and rural
areas, and insuring wide
participation of the poor in
the benefits of development
on a sustained basis, using
the appropriate U.S.
institutions; (b) help
develop cooperatives,
especially by technical
assistance, to assist rural
and urban poor to help
themselves toward better
life, and otherwise
encourage democratic private
and local governmental
institutions; (c) support
the self-help efforts of
developing countries; (d)
promote the participation of
women in the national
economies of developing
countries and the
improvement of women's
status; and (e) utilize and
encourage regional
cooperation by developing
countries? N/A

Best Available Document

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.)

Not Applicable

(1) [103] for agriculture, rural development; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; 103A if for agriculture research; full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with programs carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures

encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, (i) extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (ii) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106; ISDCA of 1980, Sec. 304] for energy, private voluntary organizations, and selected development activities; if so, extent to which activity

is: (i) (a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test of suitable energy sources, and pilot projects to test new methods of energy production; (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves; and (c) a cooperative program in energy production and conservation through research and development and use of small scale, decentralized renewable energy sources for rural areas;

(ii) technical cooperation and development, especially with U.S. private and voluntary or regional and international development, organizations;

(iii) research into, and evaluation of, economic development process and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

- c. [107] is appropriate effort
place on use of appropriate
technology? (relatively smaller,
cost-saving, labor using
technologies that are
generally
most appropriate for the
small
farms, small businesses, and
small incomes of the poor.)
- d. FAA Sec. 110(a). Will the
recipient country provide at
least 25% of the costs of the
program, project, or activity
with respect to which the
assistance is to be
furnished (or
has latter cost-sharing
requirement been waived for a
"relatively least developed"
country)?
- e. FAA Sec. 110(b). Will grant
capital assistance be
disbursed for project over
more than 3 years? If so,
has justification
satisfactory to Congress
been made, and efforts for
other financing, or is the
recipient country
"relatively least developed"?
- f. FAA Sec. 261(b). Describe
extent to which program
recognizes the particular
needs, desires, and
capacities of the people of
the country; utilizes the
country's intellectual
resources to encourage
institutional development;
and supports civil education
and training in skills
required for effective
participation in
governmental processes
essential to self-government.

g. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

2. Development Assistance Project Criteria (Loans Only)

N/A

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

3. Project Criteria Solely for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? Yes

b. FA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? Yes

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? AID will follow its normal procurement procedures.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes
3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do a marine insurance business in the U.S.? N/A
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.?) N/A

5. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? N/A
6. FAA sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services be furnished from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? Yes
7. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed in grant basis, will provision be made that U.S. carriers will be utilized to the extent such service is available? Yes

6. Continuing Resolution Sec. 505. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? Yes

II. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interests? Yes

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? Yes

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million? N/A

VI. Other Restrictions

1. FAA Sec. 122(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A

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3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes
4. Continuing Resolution Sec. 514. If participants will be trained in the United States with funds obligated in FY 1981, has it been determined either (a) that such participants will be selected otherwise than by their home governments, or (b) that at least 20% of the FY 1981 fiscal year's funds appropriated for participant training will be participants selected otherwise than by their home government? Yes
5. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization? Yes
- b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes
- ..

- c. FAA Sec. 660. To provide training or advice or provide any financial support for the police, prisons, or other law enforcement forces, except for narcotics programs? Yes
- d. FAA Sec. 662. For CIA activities? Yes
- e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained. Yes
- f. Continuing Resolution Sec. 504. To pay pensions, annuities retirement pay, or adjusted service compensation for military personnel? Yes
- g. Continuing Resolution Sec. 505. To pay U.S. assessments, arrearages or dues. Yes
- h. Continuing Resolution Sec. 507. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending.) Yes
- i. Continuing Resolution Sec. 509. To finance the export of nuclear equipment fuel, or technology or to train foreign nationals in nuclear fields? Yes
- j. Continuing Resolution Sec. 510. For the purpose of aiding the efforts of the government of Yes

such country to repress the
legitimate rights of the
population of such country
contrary to the Universal
Declaration of Human Rights?

k. Continuing Resolution Sec.
516. For publicity or
propaganda purposes within
U.S. not authorized by
Congress?

Yes

BENEFICIARY ANALYSIS

Municipal and governorate officials in each of the three cities of Beni Suef, Fayoum, and Minia reported that drinkable water and sanitation were the highest priority needs of their communities. Their priorities were based on their own perceptions of needs and the priorities they felt the citizens of these communities themselves would have expressed. At the time, however, there was no information on needs, demands (felt needs), the distribution of need within communities, who would benefit from sewer and water activities, and what kinds of impediments might be encountered in implementing sewer and water subprojects targeted for particular beneficiaries.

This Annex provides information on each of these items.

A. NEED AND DEMAND

1. Need

"Need" refers to the number of individuals or families who require sewer and water services. Each of the three cities has responded over the years to these needs, but the responses have been inadequate. The cities, therefore, have unmet needs (service gaps) that the present project will help meet.

Part A of Table 1 identifies several basic determinants of need: (1) the three cities have a combined population of somewhat less than one-half million, and (2) they are each growing fairly rapidly. When translated into "service units," the cities require water and sewer services for 51,577 residential buildings containing 88,622 separate dwelling units in which the population of 482,700 people live.

Part B of Table 1 provides best estimates of units and population with water and sewerage services listed separately. When expressed as deficits, 38% -- 185,497 people -- of the three-city population are without water in their "residential units"; 76% -- 368,408 people -- live in buildings without a sewerage connection. The three cities vary in size and unmet need, and in each community, water is more accessible than sanitary waste services.

TABLE 1
WATER AND SANITATION NEEDS

| | <u>Beni Suef</u> | <u>Fayoum</u> | <u>Minia</u> | <u>Total</u> |
|---|------------------|---------------|--------------|---------------|
| <u>A. Service needs</u> | | | | |
| 1. Population | | | | |
| (a) 1980 | 130,700 | 189,000 | 163,000 | 482,700 |
| (b) 1960-76 annual growth rate | 2.56% | 3.13% | 2.77% | |
| 2. Service Units | | | | |
| (a) Number of families (residential units) | 24,863 | 33,878 | 29,861 | 88,622 |
| (b) Number of residential buildings | 15,008 | 21,330 | 15,239 | 51,577 |
| <u>B. System Response</u> | | | | |
| 1. Water | | | | |
| (a) % residential "units" connected | 65.8% | 57.5% | 62.9% | |
| (b) Population without service | 44,699 | 80,325 | 60,473 | 185,497 (38%) |
| 2. Sewers | | | | |
| (a) % residential "buildings" connected | 34.2% | 26.3% | 12.2% | |
| (b) Population without service | 86,001 | 139,293 | 143,114 | 368,408 (76%) |

Source: PAUCO, National Urban Policy Study
B 1(b) and 2(b) based on A 1(a), B 1(a) and B 2(a)

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These figures refer to a static situation only, as suggested by the population growth rates. The three urban areas are growing faster than the rural populations in the same governorates. According to a Mission-funded survey conducted in Beni Suef, this growth is reflected in two separate patterns of urbanization: (1) the informal housing areas are expanding as rapidly or more rapidly than housing elsewhere in the city, and (2) there is "vertical" expansion in the already built-up parts of the city. Informal areas are typically not provided essential urban services and, as a consequence, the service gap is especially serious and growing in these areas. Vertical growth typically occurs in already-serviced areas, but the growth often results in service demands that exceed the designed capacities of the service systems in these particular areas. This excess also represents a service gap, one that creates especially noxious health influences in inadequately sewered highly congested neighborhoods.

The water and sewer deficit figures are deceptively low for several reasons. Water service is irregular, pumping operations are frequently interrupted, and pressures are often too low even to provide water in units that are connected to the system, especially during peak demand periods. Residents, therefore, must have back-up sources. In Fayoum, for example, nearly 58% of the population have access to water in their residential units, but public taps offering free water account for an estimated 61% of the water consumed in the city. Public taps only account for 2% of Cairo's consumption, although a World Bank Study found Beheira in the Delta more typical of Middle-Upper Egypt -- with public taps accounting for about half of all water consumed.

Residents rely on several sources of water -- their own individual taps, mosques, churches, neighbors, unprotected ground sources, private vendors, rivers, and, even, canals. They also must rely on a variety of vessels to fetch, store, and dispose of their water. As a result of these different sources and means of convenience and storage, there is no way at present to assure that the 483,000 residents of these three urban centers will have access to satisfactory amounts of water safe for drinking, personal hygiene, food preparation, and other purposes. The true water deficit, therefore, is not 185,497 but probably the entire population of 482,700 people.

The sewer deficit is also much more serious than indicated in Table 1. Irregular pumping results in backups and flooding in some neighborhoods (as reported in Fayoum); a sizeable number of buildings rely on cesspools, vaults, and holding tanks that are not adequately maintained nor emptied. Raw sewage spills into the streets in these areas as well. Streets are the last -- if not first -- resort for the disposal of human waste for some residents, and streets are also the major play areas for children.

These sanitary inadequacies in both sewered and unsewered areas would be serious in any community, but they are especially serious in communities with the high ground water tables found in the present three provincial cities. Many residents rely on unprotected ground water -- or rivers and canals -- for their secondary if not first source of water. The inadequate sanitary facilities in these communities is contaminating this water, further exacerbating the noxious health environment of the residents.

Because Egypt does not yet have accurate statistics on personal health, water use, and environmental conditions, it is not possible to assess how serious a health threat water and sanitation systems present in these three cities. Existing data are questionable. Urban infant mortality rates for 21 governorates in 1976, however, indicate that Beni Suef is second highest, Minia is tied for third, and Fayoum is tied for the next rank. These three urban environments appear to be among the worst in Egypt. The accuracy of these statistics, it is emphasized, is unknown, and the etiology of infant mortality in the communities has not been determined.

In summary, the statistics in Table 1 provide only a partial measure of need. Supplementary information on operating systems and gaps suggest that the officials in these three communities had good reason to assign high priority to improving and expanding water and sewerage services.

2. Demand

Information collected in Beni Suef, supplemented by studies conducted in Beheira and Cairo, suggest that residents in the three provincial cities in fact place this same high priority on sewerage and water services. The need is "felt"; it is a demand.

A Mission-funded study in Beni Suef reports that residents rate water and sewers as their highest priority needs. Another Mission-commissioned study in Cairo (for the metered water project) came to the same conclusion. A large sample survey carried out in Behcira for the World Bank also found "that people in the supply area value safe public water and its benefits."

Studies in three different parts of Egypt, therefore, agree in their assessment of the high priority Egyptians place on water and, it seems, sanitary waste disposal. There is not only a need for these services; there also seems to be a sizeable suppressed demand for them. The priorities expressed by the officials in the three provincial cities do reflect both the felt and real needs of the residents.

3. Other Problems

These communities have many other needs in addition to sewers and water. For example, the three have traffic circulation problems resulting from their linear settlement patterns along water ways that are also divided by a railroad, canals, and major streets. Travel is further complicated by inadequate road widths and the physical condition of streets and roads. Some were described as not even suitable for pedestrian use. A Mission-funded study also reported garbage was littered on the streets, although solid waste removal and street cleaning were not priority concerns of officials in the three cities.

Sewer and water are obviously not the only serious problems experienced by these cities. They are, however, the problems that are assigned highest priority. They are consensus problems, the ones that governmental actions and U.S. support are most likely to elicit favorable public responses.

B. BENEFICIARIES

Subproject activities for essential services will differ in the incidence of their impacts and beneficiaries. Improvements in existing systems will provide relatively more benefit to those already being served. Extensions of systems will reach new beneficiaries. In some instances, it may be necessary to upgrade the existing system so that extensions may be added to them. The three cities will be encouraged to consider

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beneficiaries in the development and phased implementation of subproject activities. Very little information is now available to assist them in this task. The materials presented below suggest that site-specific subprojects will differ considerably in their benefits.

1. City-Wide Socio-Economic Levels

There are no reliable family or individual income figures for these three cities. Literacy and educational statistics, however, indicate sizeable differences among the communities (Table 2). Fayoum, the city where free public taps account for 61% of all water consumed, has the lowest literacy level, especially among women: 42% of the Fayoum women age 10 and above were illiterate in 1976, compared with only 29% of the women in Minia. However, the median for the three areas is about the same as for Cairo and Alexandria.

TABLE 2
LITERACY AND EDUCATION^a

| | Male | | | Female | | |
|------------|------------|--------------------|--------------------|------------|--------------------|--------------------|
| | Illiterate | Up to Secondary | Above Secondary | Illiterate | Up to Secondary | Above Secondary |
| | % | | | % | | |
| Fayoum | 26 | 24 | 3.5 | 42 | 18 | 1.5 |
| Beni Suef | 20 | 31 | 4 | 36 | 20 | 1.5 |
| Minia | 16 | 33 | 4.5 | 29 | 21 | 2 |
| Alexandria | 22 | 24 | 4 | 37 | 18 | 2 |
| Cairo | 19 | 27 | 6 | 36 | 21 | 2.5 |

^a/ Age 10 and above, 1976.

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If educational level is associated with level of income, then the intra-community income distributions should be somewhat similar for the two groups of urban centers: (1) the three provincial cities and (2) the two large metropolitan centers. However, the Fayoum income distribution appears to be especially skewed toward the poor.

The Mission has updated the 1974-75 Urban Household Expenditure Survey, prepared by CAPMAS, bringing it to 1979 levels. The median family annual expenditure was L.E. 900 to 999, and the lowest quartile was under L.E. 700, or about L.E. 57 per month.

Incomes are generally thought to be lower outside the two major metropolitan areas, although a Mission study in Beni Suef found that finished construction prices per square meter in the informal sector are the same as in Cairo. Since many consumer products are sold at fixed subsidized prices, it is not possible to estimate for this Annex the relationships between cost-of-living and family incomes in these or other areas of Egypt. However, informed observers generally agree that these three communities -- especially Fayoum -- are on average at a lower socio-economic level than certainly the large metropolitan centers. That their quality of life is also lower, is supported by the previously-noted high infant mortality rates and the reliance of the communities on public water taps.

2. Inter-Neighborhood Differences

Although the picture is uneven, several studies and personal observations suggest that the poor are the least likely to have access to existing essential services in these cities. A Mission study of 20 neighborhoods in Beni Suef, for example, found that unsewered areas are the most likely to be poor and to lack paved main streets. But they are also least crowded. This is because (following information provided by a University of Cairo planning team working in Fayoum), these cities have been adding population by incorporating rural areas that are rapidly expanding through the building of informal housing. They are a mixture of old rural poverty with new urban poor families.

TABLE 3

BENI SUEF NEIGHBORHOODS

| | <u>Unsewered Neighborhoods</u> | <u>Sewered Neighborhoods</u> |
|-----------------------------|------------------------------------|----------------------------------|
| % Poor | 100% | 14% |
| % Having paved main streets | 15% | 86% |
| % Crowded | 8% | 43% |
| Number of Neighborhoods | 13 | 7 |

The University of Cairo team working in Fayoum found that the newer rural areas added to the city were the poorest and that the city's low-income neighborhoods were the least likely to have essential services. The Mission-funded study of basic infrastructure for these three provincial cities concluded "from windshield observations" that the areas not served by water networks have the poorest housing and "presumably the most needy persons." Confirmation of this relationship between housing and poverty is provided by the Mission's socio-economic study for the proposed Cairo metered water project. This study found a disproportionately large number (63%) of the families in informal areas were in the bottom quartile of urban family incomes (expenditures).

In the older and more congested parts of cities, it seems that the poor are the most likely to rely on public taps. These are the residents who are usually the first to suffer when the system's pressure drops. The poor, regardless of where they live, are most likely to be deprived of essential services.

3. Women

The way water is provided has an especially significant impact on women, for throughout Egypt they have the responsibility for collecting water when it is provided by public taps. They are also responsible for disposing of waste water.

Water containers come in different sizes. The 20 to 25 litre bastilla is commonly used. Women carry these vessels on their head. They store clean water for drinking in large, heavy, oval-shaped jars (zir) or smaller pottery jugs (kola) that are filled from the zir. Special bastilla are used to store wastewater or to store water to be boiled for laundry.

Obtaining and disposing of water is a labor-intensive, time-consuming, and energy-expensive responsibility. The amount of time devoted to this one function alone depends on the size of the family, whether they have animals (and many of the rural-area neighborhoods in the provincial cities are likely to have animals), the distance between the house and the water source, how difficult the trip between these two points is, how many outlets there are at the source, how many other women want to obtain water at the same time, the water pressure at the tap, etc., etc.

An adequately operating water tap in one's own home can easily save many women (and their daughters) up to 3 or 4 hours a day! The siting, design, and adequate operation of water taps outside the home also can have significant time, energy, and health impacts on women. Women, therefore, are particularly likely to benefit from improved water services.

C. CONSTRAINTS AND ISSUES

AID and other donor agencies have identified a number of issues that must be addressed in the design and successful implementation of sewer and water projects in Egypt and elsewhere in the Near East. It will be the responsibility of the T/A contractor for the present project to work with the three cities in devising and executing solutions to these and other problems as they develop.

1. Increased Consumption, Waste, Cost, and Cost-Recovery

The Cairo study of informal areas estimated that families obtaining their water from public taps consume on an average from 21 to 36 l/c/d. The World Bank study in Beheira places this figure at about 40 l/c/d, but consumption figures more than double -- up to 90 l/c/d -- for "low grade apartments with one tap per dwelling" (see Table 4).

TABLE 4
WORLD BANK CONSUMPTION ESTIMATES BY CONSUMER CLASS
(Beheira)

| <u>Consumer Class</u> | <u>Description</u> | <u>Liters/Capita/Day</u> | | |
|-----------------------|---|--------------------------|------------------|------------------|
| | | <u>1980</u> | <u>1990</u> | <u>2000</u> |
| A | High class with luxury dwellings with multiple fittings | 180 | 190 | 200 |
| B | Middle class to good standard housing with full plumbing | 115 | 125 | 140 |
| C ₁ | Low grade apartments; one tap per dwelling with shared toilet - Urban | 90 | 90 | 90 |
| C ₂ | Low grade dwellings, generally in rural areas | 65 | 65 | 65 |
| D | Consumers on standpipes | 40 | 40 ^{1/} | 40 ^{1/} |

^{1/} For the purpose of demand projections 15 l/c/d has been added for small trades, institutional use and supply at mosques; water supplied under these categories will be metered. The standpipe requirement based approximately on 55% carried away, 35% used at the standpipe for washing and 10% wastage.

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Actual l/c/d figures will depend on the type of delivery system provided, particularly the degree to which reliance will be placed on public taps, the design of the taps, the quality of water provided, and other considerations affecting the release of suppressed demand for water. The World Bank calculates that the Behaira project could meet basic water needs without absorbing more than 2% of a household's income. The consultant report for the present provincial cities project indicates much higher charges, although the two sets of computations appear to incorporate different cost considerations.

Unfortunately there are no data on either the price or income-elasticities of demand for water in Egypt. It is not possible, therefore, to develop an optimal or even defensible delivery system that would balance cost-recovery with consumption levels, needs, ability to pay, and, most importantly, sole 24-hour reliance on the safe, reliable water and sanitary services that will be provided.

Major potential cost savings could result from rehabilitating existing systems. Unaccountable losses to the systems would be reduced, leaving more "billable" water. On the other hand, there are strong religious beliefs regarding free water, especially from public taps. Therefore, reliance on these taps, as in Fayoum, could reduce the amount of billable water. Furthermore, as suppressed demand is released through better service, it is very likely that wastage will also increase. Experiences elsewhere in Egypt indicate that conservation of water is a major issue. The higher the wastage, the greater the capacity and output that must be designed into the system. Capacity has obvious implications for both capital and recurring costs.

Initial system development and household connections for individual dwelling units and buildings also raise serious cost questions, especially for the poor. ES-Parsons estimated it would cost L.E. 740 to connect an individual building in Cairo's informal areas to a proposed water and sewerage system (see Table 5).

TABLE 5

ESTIMATED COST OF CONNECTIONS PER BUILDING
(Cairo Informal Areas, 1980)

| | |
|--|-----------------|
| Water - Street main to building | L.E. 110 |
| Sewer - Street main to building | <u>90</u> |
| TOTAL - Street main to building | L.E. 200 |
| Water - Share of street main to source | L.E. 110 |
| Sewer - Share of street main to disposal | <u>430</u> |
| TOTAL - Share of street mains | L.E. 540 |
| TOTAL - Cost of Water and Sewer | L.E. <u>740</u> |

Many families are apparently willing and able to pay for connections. Most families, however, would need access to credit that does not now exist before they could obtain service.

These figures for both initial and recurring costs raise questions about appropriate standards, technologies, and least-cost solutions for water and sewerage systems.

On the basis of experiences elsewhere in Egypt, it seems likely that the initial costs for connections will deter many landlords from providing services to their tenants. Forty-seven percent of Fayoum households are renters, and there is a growing number of renters in Beni Suef. Their landlord's consent is required before connections can be made, but under present rent control laws, the landlords have minimal incentive to provide this service or even allow their tenants to pay for it themselves.

In summary, the success of sewer and water subprojects targeted to benefit the poor will depend on the ability of these cities, with the assistance of the T/A contractor, to devise ingenious solutions to issues relating to standards, the distribution of different types of outlets, initial and recurring costs, credit arrangements, conservation measures, cultural attitudes toward water, the legal rights of landlords, and the incentives that can be provided so that their tenants can benefit from the new services in the three communities. Annual evaluations will

address these issues, and changes in program concept and requirements, will be made, as appropriate.

2. Sewers, Water, and Health

Public health experts suggest that systems providing over 40 l/c/d require waterborne sanitary systems to dispose of waste water. As indicated earlier, household connections are likely to increase consumption levels to at least 90 l/c/d. Existing pit latrines are not adequate to handle this increased load. If families dispose of their waste by throwing it on the streets, then the provision of safe reliable drinking water could have just the opposite effects intended for it.

Therefore, cities will have to closely coordinate the extension and upgrading of their sewer and water systems.

The World Bank concluded that providing potable water to Beheira would not by itself assure that the intended health effects would be realized. The Bank, therefore, built a small health education component into the project. It is to encourage consumers to make proper use of water and to follow good sanitation practices. Conservation measures could also be encouraged by this effort.

The present project will encourage and support similar complementarities, which in turn will be subjected to annual evaluations.

3. Paving:

Regarding street paving and/or resurfacing of existing streets, the Mission's experience in other water and sewer projects in Egypt has shown a demonstrable need to repave streets after excavation to install water and/or sewer mains. The perceived benefits by the population served are enormous. While storms are infrequent in Egypt, they do occur and are usually intensive. Without providing proper drainage, grading and a surface treatment that will last with minimum maintenance, swampy areas are formed with their attendant adverse effect on the health of the lower income families. However, each street paving sub-project will be subjected to a socio-economic analysis of cost-effectiveness.

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NOEX 2
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PROJECT DESIGN SUMMARY LOGICAL FRAMEWORK

Life of Project: 5 - 115
From FY: 1981 to FY: 84
Total US Funding: \$ 73 million
Date Prepared: 12/1/80

Project Title & Number: PH 220001 - WATER SUPPLY DEVELOPMENT AND MAINTENANCE

| NARRATIVE SUMMARY | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|--|---|--|---|
| <p>Project Outputs: (C-1)</p> <ol style="list-style-type: none"> 1. Improved planning, budgeting, operational management systems and procedures for infrastructure for three provincial capital cities. 2. Capacity in place to implement major capital infrastructure projects. 3. Infrastructure in place. 4. Completed long-range capital investment plans for three provincial cities. 5. cadre of trained municipal personnel. | <p>Magnitude of Outputs: (C-2)</p> <ol style="list-style-type: none"> 1. Fully costed capital investment water and sewer master plans. 2. \$ 73 million worth of infrastructure installed, in the three cities. | <p>(C-3)</p> <ol style="list-style-type: none"> 1. Review and analyze quality and completeness of designs for infrastructure projects and management operations control system. 2. Physical inspection of quality and completeness of sub-projects. 3. Consultants reports. | <p>Assumptions for achieving outputs: (C-4)</p> <ol style="list-style-type: none"> 1. Sufficient and capable consultants will be available to carry out the design and management operations for governorate/city and that sufficient training will be given to insure a competent local staff to maintain the systems. 2. Sufficient and capable A/E consultants and construction contractors will be available to carry out the projects within the cities. |

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BEST AVAILABLE DOCUMENT

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PROJECT DESIGN SUMMARY LOGICAL FRAMEWORK

Annex E
Page 4 of 4

Project Title & Number

Project Title & Number

Scale of Project
From FY. to FY. M.
Total U.S. Funding \$75,000,000
Cost Categories

| NARRATIVE SUMMARY | OBJECTIVE VERIFIABLE INDICATOR | MEANS OF VERIFICATION | ASSUMPTIONS FOR PROVIDING INPUTS |
|---|--|---|---|
| Project Inputs (I-1) | Implementation Target (Type and Country) (I-2) | (I-3) | Assumptions for providing inputs (I-4) |
| <p>1. U.S.</p> <p>Funds for general consultant and technical assistance.</p> <p>Funds to finance capital investment, primarily water and sewer.</p> <p>2. GCE</p> <p>Project Staffing</p> <p>Land and right of way</p> <p>Funding for O and M costs for capital projects.</p> | <p>U.S.</p> <p>\$75,000,000</p> <p>GCE</p> <p>IE Equivalent to \$20 million with an additional \$5 million "in-kind contribution."</p> | <p>1. GCE Budget Data</p> <p>2. Consultant reports</p> <p>3. Statistical Data</p> | <p>1. Availability of U.S. and GCE funds.</p> <p>2. Qualified personnel to direct program at management level and for training.</p> <p>3. Availability/ allocation of materials for construction on a timely basis.</p> |

Annex E p.4

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PROJECT DESIGN SUMMARY
RURAL FRANCHISE

Life of Project: 5 years
From: 1981
Year 5 Forecast: 1986
Date Prepared: 1981

Project Title: RURAL FRANCHISE DEVELOPMENT (1981-86)

| OBJECTIVE | MEASURES OF GOAL ACHIEVEMENT | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|---|--|--|
| <p>Program Objective: To assist the GOA to achieve its policy objective of economic and administrative decentralization and to foster a more effective urbanization process at the secondary city level.</p> | <p>1. Significant increase of government controlled budget allocations for capital investment over the next five years, and a proportional decrease in ministry controlled budgets for similar purpose.</p> <p>2. Significant increase in the amount of grants to government for capital investment over the next five year period.</p> <p>3. Significant increase in local raised and retained funds for public services.</p> <p>4. Decrease in the difference between the local revenues raised and expenditures.</p> <p>5. Increase in the number of city population served by public services in the area of water and sewer.</p> | <p>1. Compare all the three SAs budget to governments over next five years.</p> <p>2. Compare central grants to governments over the next five years.</p> <p>3. Compare amounts in special accounts over next five years.</p> <p>4. Compare amount of infrastructure placed over five year period, distribution.</p> | <p>1. Economic and administrative decentralization remains an important element of central government policy.</p> <p>2. Channeling of the urbanization process remains a government goal.</p> <p>3. Fiscal and administrative stability and growth on the part of the central government will continue over the next five years.</p> |

Annex I p 1

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PROJECT DESIGN LIBRARY
LOGICAL FRAMEWORK

Library _____
From FY _____ RG _____
Year _____
Loan Program _____

Page 2 of 4

Project ID: _____

Project Name: _____

Project Purpose: (1)

To improve and expand the growing internal capacity of the three governorates in general and their capital cities specifically to identify, plan for, budget, finance, design, construct, and maintain urban infrastructure and services at the municipal staff level.

Project Objectives: (2)

Conditions that will indicate purpose has been achieved. End of Project status: (3)

1. Provincial governments design and construct infrastructure projects without relying on central government based upon locally identified needs, financing, and growth estimates.
2. Observable increase in level of maintenance and operational efficiency of infrastructure services.
3. Increase in level of experience and training of professional staff.
4. Improved management and accounting systems adopted and staff trained in their use.

Means of Verification: (4)

1. Project implementation records.
2. Comparison of baseline data on maintenance and operational efficiency to end of project status.
3. Personnel records.
4. Observation of management and accounting practices at the city level.

Assumptions for achieving purpose: (5)

1. Authority which has been delegated to the governorate will be exercised.
2. Added economic and administrative authority will be given to the governorate to carry out provincial city infrastructure projects.

PAGE 2

Annex E p 2



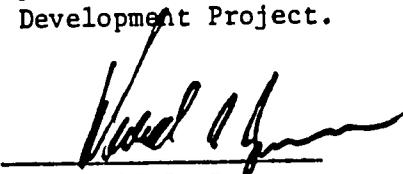
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ANNEX F
Page 1 of 1

CERTIFICATION PURSUANT TO SECTION 611(e)
OF FAA 1961 AS AMENDED

I, Donald S. Brown, Director, the principal officer of the Agency for International Development in Egypt, having taken into account, among other issues, the maintenance and utilization of projects in Egypt previously financed or assisted by the United States and technical assistance and training planned under this Project do hereby certify that in my judgement Egypt has both the financial capability and the human resources to effectively install and utilize the capital assistance to be provided in the participating Governorates under the Provincial Cities Development Project.



Donald S. Brown
Director

DESCRIPTION OF LOCAL GOVERNMENT ORGANIZATION

Formal Levels of Organization within the Governorates

| | |
|---------------------------------|--|
| The Governorate Headquarters | This organization has general responsibility for supervision and/or oversight of performance of local government responsibilities. |
| Markaz (District) | Districts into which the governorates are divided for administrative purposes (similar to U.S. countries). |
| Markaz City | <p>The principal city within the Markaz (frequently the only city therein) is responsible for not only administration of its own affairs but also various aspects of coordination of the municipal and village council governments within the Markaz.</p> <p>The Markaz city in which the headquarters of the governorate are situated is frequently called the <u>provincial city</u>, or the "Capital city". In law it apparently has the same status as each other markaz city.</p> |
| Village-Councils | Organizations of groups of villages for administrative purposes. |

Principal officials and official bodies:

At the Governorate Level. The Governor is nominated by the President and has ministerial rank within the government of Egypt. As such he is the most important official within the governorate. He has wide legal power in a number of respects but is limited in other areas, especially in the budgetary process.

The governor presides over the governorates Executive Council, composed principally of directors of those ministries that maintain directors at the governorate level. The executive council is the official administrative coordinating body of the governorate.

An Elected Council Provides representation from the various markaz into which the governorate is divided--consisting in some of the larger governorates of more than 60 members. The powers of the elected council appear to be limited to (1) Approval of the proposed budget for the governorate, (2) approval of the distribution of moneys, within the "headquarters budget" of the governorate, among the various units of local government, and (3) certain oversight and "follow-up" responsibilities.

The Markaz City. The Executive Council of the markaz city (which is the capital city in the case of the three cities of concern in this study) is presided over by a chief, who is frequently referred to as the Mayor. He is appointed by the Governor. He does not have authority to enforce orders or, except under extreme circumstances, to replace local directors. The mayor is assisted by a deputy who acts as his principal administrative officer.

The Elected Council of the markaz city stands in relation to the city in much the same manner as the elected council at the governorate level stands.

Public Works Organization, Operations and Staffing

Governorates and City

Public works within the provincial cities are implemented, operated and maintained at various levels of government. The main city-related public works responsibility at the governorate level is with respect to roads; none of the three cities are well staffed for road projects and only essentially have only laborers for road maintenance and repair. The three governorates have responsibility for all paved and unpaved roads within their jurisdiction except the Cairo-Aswan Highway, certain bridges, and the city streets. In practice, the governorates also provide services with respect to city streets.

The following governorate highway department staffing levels were reported:

Beni Suef: 3 Engineers
 40 Technicians
 1,500 Laborers

Fayoum: 5 Civil Engineers
 4 Mechanical Engineers
 12 Assistant Engineers
 1,100 Laborers

Minia: 3 Engineers
 6 Technicians
 1,700 Laborers

City staffing in each case includes an engineering department with responsibility for water and sewers, among other functions. Annex L provides the organization charts for the three cities but these are not uniformly representative of actual staffing. In the case of Fayoum, the following staffing levels were reported; this data may be considered to be generally representative of the other two cities as well.

CITY OF FAYOUM STAFF

| <u>Description</u> | <u>Grade/Level</u> | <u>Numbe</u> |
|--|--------------------|--------------|
| Specialists (Engineering, Agriculture, etc. University Degree). | 1 | 1 |
| | 2 | 6 |
| | 3 | <u>40</u> |
| | | 47 |
| Technical (High School Degree) | 1 | 9 |
| | 2 | 8 |
| | 3 | 106 |
| | 4 | 114 |
| | 5 | <u>3</u> |
| | 240 | |
| Professional (Carpenters, Drivers, etc.) | 2 | 11 |
| | 3 | 112 |
| | 4 | 129 |
| | 5 | 75 |
| | 6 | <u>78</u> |
| | | 405 |
| Administrative A (Univ. Degree) | 1 | 1 |
| | 2 | 13 |
| | 3 | <u>7</u> |
| | 21 | |
| Administrative B (High School Degree) | 3 | 122 |
| | 4 | 211 |
| | 5 | <u>8</u> |
| | 341 | |
| Assisting Services | 3 | 63 |
| | 4 | 167 |
| | 5 | 188 |
| | 6 | <u>553</u> |
| | <u>971</u> | |
| City Total | | 2025 |

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memorandum

May 19, 1981

NE/PD/PDS, Stephen F. Lintner, *SFL*
Bureau Environmental CoordinatorANNEX H
Page 1 of 6EGYPT - Mid-Egypt Provincial Cities - Project Identification
Document (263-0127) - Environmental ReviewNE/TECH/SARD, John Lewis,
Project Chairperson

I have reviewed the initial Environmental Examination (IEE) prepared for the proposed project and concur with the recommendation of the Mission that it be given a "Positive Determination" in compliance with the requirements of 22 CFR 216, "A.I.D. Environmental Procedures". It is requested that the Mission provide this office with a "Scoping Statement" for the Environmental Assessment when it becomes available.

cc: GC/NE, T. Carter
AID/Cairo, W. McAleer, Mission Environmental Officer
AID/Cairo, L. M. Hager, Senior Legal Adviser
AID/Cairo, A. Nathanielsz, Mission Project officer

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INITIAL ENVIRONMENT EXAMINATION
NARRATIVE DISCUSSION

1. Project Location

Egypt

2. Project Title

Provincial Cities

3. Funding (Fiscal Year and Amount)

FY 1981 \$75,000,000

4. IEE Prepared By

Ault Nathanielsz

Date: February 5, 1981

5. Action Recommended

The project may have an effect on the environment and therefore a determination requiring that a scoped environmental assessment of the effects of waste water disposal be conducted prior to initiating disbursement for the construction or material modifications of waste water plants is recommended.

6. Discussion of Major Environmental Relationships of Project Relevant to Attached Impact Identification and Evaluation Form

The proposed project consists of assistance to 3 Egyptian Cities: Minia, Beni-Suef and Fayoum. The project will provide a sum of money to each city to improve its physical infrastructure in vital areas as each city sees fit subject to broad project guidelines. We envision the infrastructure projects to be selected to be the expansion and modernization of the water and sewerage systems serving these cities. The components of the project in each city will be:

- a) Consulting services to generally test feasibility and plan projects;
 - b) consulting services to design projects;
 - c) training;
 - d) construction of replacement and expansion of existing potable water and sewerage systems.
- ...

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Although no negative effects are foreseen the relationships of these components to the environment vary. Generally, the intent of all the components is to improve the functioning of the existing potable water and sewage networks. Because the systems are now operating at less than optimum effectiveness with resulting deliterious effects to the ecology and human health overall project effect will be to better the environment as efficiency is improved.

The project planning and preparation assistance will only affect the environment as plans are developed and projects implemented. These plans and projects cannot now be delineated. However, what can be defined is the responsibility of U.S. funded personnel to consider and examine environmental factors in plan and project preparation. Such responsibilities will be written into the scope of work for these personnel.

In a similar manner one of the requirements of the feasibility study and preliminary design team will be an analysis of the potential environmental effects of any changes proposed in the current systems. Such analysis will be delineated in the Scope of Work, will be funded and specific sections of the feasibility work and preliminary plans will deal with environmental issues. Again, possible issues or questions cannot be accurately predicted at this time. However, if it is proposed that any waste water plants are to be materially modified or new waste water plants constructed a scoped environmental assessment focusing on treatment methods and effluent disposal shall be made prior to any AID funding of construction.

Training per se has no environmental impact. But the contents of the training can affect perceptions of the effects of various actions on the environment. It is expected that the training program developed will contain suitable emphasis on environmental factors to be considered in planning for and operating the water and sewerage networks.

The construction element will seek to expand and improve the existing system. The program does not propose to change the basic system. Although the construction phase might temporarily cause certain noise or dust pollution, as construction is finished these will disappear. The ultimate result will be a better operating water and sewerage network with a beneficial environmental effect as water and sewerage is better treated and water now is economically utilized.

To conclude, a negative IEE determination is recommended. This recommendation is based on a positive environmental impact from the project.

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IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Identification and Evaluation

Impact Areas and Sub-areas

A. LAND USE

1. Changing the character of the Land through
 - a. Increasing the population
 - b. Extracting natural resources
 - c. Land cleaning
 - d. Changing soil character
2. Altering natural defenses
3. Foreclosing Important uses
4. Jeopardizing man or his works
5. Other factors:

L

N

N

N

N

N

N

B. WATER QUALITY

1. Physical state of water
 2. Chemical and biological states
 3. Ecological balance
 4. Other factors:
- Project will improve sewerage treatment and improve both physical and biological states of water

M

M

N

N

N - No environmental impact
L - Little environmental impact
M - Moderate environmental impact
H - High environmental impact
U - Unknown environmental impact

IMPACT IDENTIFICATION AND EVALUATION FORM

Page 2

C. ATMOSPHERIC

- 1. Air additives N
- 2. Air pollution N
- 3. Noise pollution N
- 4. Other factors:

D. NATURAL RESOURCES

- 1. Diversion altered use of water L
- 2. Irreversible, inefficient commitments N
- 3. Other factors:

E. CULTURAL

- 1. Altering physical symbols N
- 2. Dilution of cultural traditions N
- 3. Other factors:

F. SOCIO ECONOMIC

- 1. Changes in economic/employment pattern I
- 2. Changes in population N
- 3. Changes in cultural pattern N
- 4. Other factors:

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IMPACT IDENTIFICATION AND EVALUATION FORM

Page 3

G. HEALTH

- | | |
|-------------------------------------|----------|
| 1. Changing a natural environment | <u>N</u> |
| 2. Eliminating an ecosystem element | <u>N</u> |
| 3. Other factors: | |
| <u>Potable water availability</u> | <u>H</u> |
| <u>Lowering of disease</u> | <u>H</u> |

H. GENERAL

- | | |
|--------------------------|----------|
| 1. International Impacts | <u>N</u> |
| 2. Controversial Impacts | <u>N</u> |
| 3. Other factors: | |
| _____ | _____ |
| _____ | _____ |

I. OTHER POSSIBLE IMPACTS (not listed above)

- | | |
|-------|-------|
| _____ | _____ |
| _____ | _____ |
| _____ | _____ |

Prepared by: Ailt Nathanielsz

Date: 2/5/81

Project location: Egypt

Project Title: Provincial Cities

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SUMMARY REVIEW OF THE
EVOLUTION OF LOCAL GOVERNMENT LAWS

| Characteristics | Law No. 124/1960 | Law No. 57/1971 | Law No. 52/1975 | Law No. 43/1979 | Proposed Amendments |
|--|---|--|---|--|---|
| (1) <u>Highest Supervisory Authority</u> | Ministerial Committee for local government whose formation is authorized by a decision from the President of the Republic; Vice President is Chairman, the Minister of Local Government in charge of secretariat. | Ministerial committee for local government under the chairmanship of the Prime Minister, or the next in line from committee members, and membership of ministers whose functions are related to local government. | Ministerial committee for local government under the Chairmanship of the Prime Minister, or the next in line from among committee members, with membership of ministers whose functions are related to local government. | Council of Government with Prime Minister as Chairman, and membership of Minister of Local Government and all the governors. | Higher council for local government which includes heads of local popular councils of the governorates and the governors. This convenes in the form of a conference under the chairmanship of the Prime Minister. |
| (2) <u>Levels</u> | Governorate, Town, Village | Governorate, Town, Village | Governorate, Markaz, Town, District, Village | Governorate, Markaz, Town, District, Village | Governorate, Markaz, Town, District, Village |
| (3) <u>The Councils</u> | Local Councils: Majority of members are elected, some representatives of ministries. | Executive Council and Popular Council at the governorate and other levels. | Executive Committee which includes the Governor or head of unit; and an elected popular council at the governorate, markaz, town, village and urban district levels. | Local Popular and Executive Councils at all levels. | None. |
| (4) <u>Formation of Local Councils</u> | <p><u>Governorate:</u></p> <ol style="list-style-type: none"> 1. Governor - Head. 2. 2 - 4 members in every markaz or administrative department, or the members of the Executive Committee of the National Union. 3. Selected members from the National Union. 4. Members of selected occupations. <p><u>Town Councils:</u></p> <ol style="list-style-type: none"> 1. 20 members from the Executive Committee of the National Union for the town. 2. Not more than 5 members chosen from the National Union. 3. Six members of selected occupations. | <p><u>Popular Council:</u></p> <ol style="list-style-type: none"> 1. Secretary of the Governorate Socialist Union Committee as Chairman. 2. Members of the Governorate Socialist Union Committee. 3. Citizens of towns. 4. Two members from youth. 5. Two representing women's activities. <p><u>Executive Council:</u></p> <ol style="list-style-type: none"> 1. Governor is Chairman. 2. Deputy Governor, if available. 3. Governorate General Secretary. 4. Representatives of government organizations. | <p><u>Governorate Local Council:</u></p> <ol style="list-style-type: none"> 1. Secretary of the Governorate Socialist Union Committee is Chairman. <p><u>Markaz:</u></p> <ol style="list-style-type: none"> 1. Eight members from the capital of the markaz. 2. Four members from every village unit. <p><u>Towns:</u></p> <ol style="list-style-type: none"> 1. Eight members for every administrative department. 2. Sixteen members for the town having only one administrative department. <p><u>Districts:</u></p> <ol style="list-style-type: none"> 1. Council based on six members representing an administrative department. | Same as in No. 52, except that female representation was introduced for every markaz district. | None. |

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BEST AVAILABLE DOCUMENT

| Characteristics | Law No. 124/1960 | Law No. 57/1971 | Law No. 52/1975 | Law No. 43/1979 | Proposed Amendments |
|---|--|--|--|---|--|
| (4) <u>Formation of Local Councils</u> (continued) | <p><u>Village Councils:</u></p> <ol style="list-style-type: none"> Not more than ten members from the Executive Committee of the Socialist Union. Ex-officio members selected by a Governor's decision. Two members by decision from Minister of Local Government, based on proposal by the Governor. | <ol style="list-style-type: none"> It is permissible to invite Heads of Towns, representatives of agencies and economic units when dealing with topics related to them. | <p><u>Villages:</u> Council of 16 members.</p> | | |
| (5) <u>Local Council Responsibilities</u> | <p><u>Governorate Councils:</u></p> <ol style="list-style-type: none"> Establishment & administration of all utilities and works of local nature that have general benefit for the Governorate. Start projects of local nature that town and village councils are unable to establish. Give technical and financial aid to social and benevolent organizations. Governorate Council should participate with other town or village councils in the establishment and administration of public utilities. Authorizing the donation of Governorate property free of charge to realize public benefit to the amount of L.E.5,000, after the approval of the Minister of Local Government. | <p><u>Popular Council Responsibilities:</u></p> <p>Under Law No. 57, the popular councils are responsible for follow-up and execution of plans related to national work programs in the Governorate. The Council is also responsible for suggesting policies, taking decisions to:</p> <ol style="list-style-type: none"> Consolidating defense of the homeland. Suggest and establish utilities of local nature. Implement projects of local nature that town and village councils are unable to establish. Participate in public benefit projects with other Governorates or councils. Approve the Governorate budget. Approve the final accounting of the Governorate budget. | <p><u>The Governorates:</u></p> <ol style="list-style-type: none"> Control and supervision over different public utilities and works of local nature within the Governorate. Control and supervision over work of other councils, sanctioning of their decisions, approval of establishment or abolishment of local units within the Governorate. Within the General Plan: <ol style="list-style-type: none"> Confirmation and follow-up of execution of projects of development plans. Confirmation of popular participation plan for aiding in local projects. Proposal of taxes and fees. Approval of establishment of local production projects. | <p><u>The Governorates:</u></p> <ol style="list-style-type: none"> Control over all utilities and works that fall within the jurisdiction of the Governorate, and supervision over implementation of production plans related to local development, which includes: <ol style="list-style-type: none"> Confirmation and follow-up of implementation of economic development plans. Defining the popular participation plan to aid in local projects Approval of spatial and utilities planning projects. Local tax enforcement. Preparation of illiteracy eradication plans. | <p><u>Governorate Local Councils</u> are given many responsibilities previously assigned to the Council of Governors, such as:</p> <ol style="list-style-type: none"> Authorizing the allocation of property of local units to individuals free of charge, if the recipient is of Egyptian origin, but for non-Egyptian institutions or persons, the Cabinet needs to authorize such a transaction. Approval of loans for governorate productive projects if the loan is from an Egyptian source; if the loan is from a foreign country (or institution) the Cabinet should authorize the transaction. Determining of additional tax which should not exceed 5 percent of the original tax; the additional tax on land should not exceed 15 percent of the original land tax. |

Summary (continued)

| Characteristics | Law No. 124/1960 | Law No. 57/1971 | Law No. 52/1975 | Law No. 41/1979 | Proposed Amendments |
|---|--|---|---|--|---|
| <p>(*) <u>Local Council Authorities</u> (continued)</p> | <p>6. Giving loans to authorities and establishments after receiving the approval of the Minister of Local Government.</p> <p>7. The Council may contract loans after the approval of the Minister of Local Government, or Ministerial Committee for Local Government, or by Presidential decree.</p> <p><u>Town Councils:</u></p> <p>1. The free use of town money for realizing public benefit to the amount of LE1,000, after receiving the approval of the Minister of Local Government. For amounts exceeding LE1,000, and for non-governmental use, the approval is by Presidential Decree.</p> <p>2. The Council within its jurisdiction, is authorized to implement laws and regulations related to public utilities</p> <p><u>Village Councils:</u></p> <p>1. The Village Council is responsible for providing the following services: Education, health, culture, social, labor, agriculture, organization, and any other services that may be given to it.</p> <p>2. The administration of the combined unit within its jurisdiction.</p> | <p>7. Follow-up on the execution of the General Plan for production and services related to the Governorate.</p> <p>8. Study of illiteracy eradication plans and family planning.</p> <p>9. Support of projects and local industries.</p> | <p>4. It is permitted, after the approval of the Minister of Local Government, to donate some of its property free of charge to the maximum amount of LE25,000.</p> <p>5. The Council may, after the approval of the Minister of Local Government, take a loan within a fixed amount of its resources.</p> <p>6. Grant aid to public authorities and local public establishments within the Governorate to implement projects having general benefit after obtaining the approval of the Minister concerned.</p> <p>8. Give opinion on subjects the Governorate, or concerned ministers, require an opinion on.</p> <p><u>The Markaz:</u></p> <p>1. Supervision and control over work of Town and Village Local Councils that fall within its jurisdiction.</p> <p>2. Control and supervision over:</p> <p>a. Confirmation of the Markaz plan.</p> <p>b. Determination of Markaz popular participation plan.</p> <p>c. Propose the establishment of utilities that have general benefit for the Markaz.</p> | <p>f. Establish free zones or joint investment venture companies with Arab or foreign capital after obtaining the approval of the General Authority for Investment on such ventures. Approval of Council representation in internal conferences.</p> <p>2. In relation to other local popular councils, the Council is responsible for supervision and control of their work, sanctioning or refusing decision taken by them.</p> <p>3. The Governorate local popular council may freely dispose of any of the fixed assets of the Governorate, or lease such property at nominal rent, or at less than market rates, if such disposal is within a LE50,000 limit.</p> <p>4. The Council may contract loans for productive projects not to exceed 20 percent of its revenues.</p> <p>5. Giving technical and financial aid to social and benevolent entities.</p> <p><u>Markaz</u> It differs from Law No. 52 only in the following:</p> <p>1. The Markaz Local Popular Council, on approval of the Governor, may dispose freely of Markaz property for purposes of public benefit</p> | <p>4. Determination of some local fees.</p> |

Summary (continued)

| Characteristics | Law No. 124/1960 | Law No. 57/1971 | Law No. 52/1975 | Law No. 43/1979 | Proposed Amendments |
|---|--|---|--|--|--|
| <p>(5) <u>Local Council</u> <u>Responsibilities</u> (continued)</p> | | | <p>3. It is permitted after obtaining the approval of the Minister of Local Government to authorize the allocation of some of the property of the Markaz within a limit of LE5,000.</p> <p><u>Towns:</u></p> <p>1. This Council is responsible for control and supervision over district councils and coordination among them; control and supervision over different utilities of local nature.</p> <p>2. Authorize the allocation of town property free of charge after the approval of the Minister of Local Government within the amount of LE5,000.</p> <p><u>Districts:</u></p> <p>1. Control and supervision over different utilities of local nature within the jurisdiction of the sector.</p> <p>2. Collection of revenues in town account and determination of expenditures sufficient for each sector.</p> | <p>If such disposal is within LE10,000. But, for proposals of LE10,000-LE50,000 the approval of the Governorate Popular Council is required for non-government entities.</p> <p><u>Towns:</u></p> <p>The same as in Law No. 52 except that the Town Local Popular Council, on approval of the Governor, may freely dispose of any town assets for public benefit purposes if the disposal is within LE10,000 during one fiscal year.</p> <p><u>Sectors:</u></p> <p>The same as under Law No. 52.</p> | |
| <p>(6) <u>Authority of the Governor</u></p> | <p>The governors shall be treated on par with vice ministers with respect to salary and pension. Other than the above; rules applied to deputy</p> | <p>Under this law, the Governor acquired the status of Vice Minister. He may also be appointed with a status of Minister.</p> | <p>The Governor is treated on par with minister or vice minister, depending on his appointment by the President. He supervises the implementation of State</p> | <p>The Governor shall be treated on par with ministers with respect to salary and pension. The Governor represents the President in the</p> | <p>In addition to all changes introduced under Law No. 43, the new amendments state that the nominations for President and Vice President of the</p> |

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Summary (continued)

| | Law No. 124/1969 | Law No. 57/1971 | Law No. 52/1975 | Law No. 43/1979 | Proposed Amendments |
|---|--|---|---|---|---|
| <p>(6) <u>Authority of the Governor</u> (Continued)</p> | <p>ministers are applied to the governors. The Governor, within his jurisdiction, represents the executive authority and is responsible for implementing state policy. Every minister may transfer some of his functions to the Governor. The Governor assumes the supervision over all functions transferred.</p> | | <p>policy, as well as the responsibilities conferred on him. Under Law No. 124, the Governor has the authority of the Minister in relation to all employees in the Governorate whose responsibilities have been transferred to the local units.</p> | <p>Governorate. He is responsible for the implementation of State policy. The Governor assumes all executive authorities granted to ministers with respect to all public utilities which fall under local government unit jurisdiction. The Governor has supervisory powers over all branches of ministries which did not have their functions transferred to local units, except justice agencies. Article 139 gave the Governor the right to transfer chairmen of markaz and districts within the governorate without the approval of the minister concerned.</p> | <p>University are made by the minister concerned with the approval of the Governor. Both the Governor and President of the University are responsible for political security in the University; in addition, the Governor is responsible for this before the Local Popular Council.</p> |
| <p><u>Questioning (Interrogation) and Request for Information</u></p> | <p>The Governor is head of, and responsible for, inquiries. No requests for inquiry ever submitted to him.</p> | <p>Every member has the right to question the Governor or executive council member; to direct questions in affairs related to their functions. The Council's internal regulations organize the manner in which these questions or inquiries may be submitted and its regulations.</p> | <p><u>Questions:</u> It is permitted for every Governorate Local Council member to question the Governor, or heads of government departments.</p> <p><u>Interrogations:</u> It is permitted for members of Governorate Local Council to submit interrogations to the Governor under the following conditions:</p> <ol style="list-style-type: none"> 1. The interrogation must be submitted by one-third of the members, or six members, at least. | <p>Request for information has replaced the interrogation system because, under this system, decisions were not executed in cases where responsibility was proven.</p> | <p>A return to the right of the Local Popular Council members to submit an interrogation to the Governor or heads of government departments and other local units.</p> <p>This is conditioned by a fixed majority required for submitting the request for interrogation.</p> |

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| Characteristics | Law No. 124/1960 | Law No. 57/1971 | Law No. 57/1975 | Law No. 43/1979 | Proposed Amendments |
|---|---|--|---|---|--|
| <p>(7) <u>Questioning (Inquiry) and Request for Information</u> (continued)</p> | | | <p>2. Discussion cannot take place except after seven days, at least.</p> <p>A decision is issued under the responsibility of the Governor on a specific matter by absolute majority of the Council members and the concerned minister is informed.</p> | | |
| <p>(8) <u>Financial Resources and their Availabilities</u></p> | <p>Joint revenues with all governorate councils.</p> <ol style="list-style-type: none"> The share of the Council in the additional tax imposed on import and export is half of the proceeds, the other half is credited to the joint revenue account. The Councils' share in the additional tax on transferrable assets is half of the proceeds and the other half is credited to the joint revenue account. <p><u>Governorate Council Special Revenues:</u></p> <p>One-quarter of the proceeds of the original land tax in the governorate; one-quarter of the proceeds of the additional tax imposed by the Council on land tax in the Governorate.</p> | <p>The same as under Law No. 124/1960.</p> | <p>The establishment of a Local Fund for Service and Development (LSF), organized by a decision from the minister responsible for local government. Half of the proceeds of the sale of government-owned buildings and land specified for building purposes within two boundaries were added to Governorate revenues.</p> | <p>Increase in the maximum of additional tax on governorate imports and exports. Additional tax on movable assets, property tax, commercial and industrial profits. The governorate's own resources, the sale of government-owned buildings and land for building within town boundaries.</p> <p>Receipts derived from the sale of newly reclaimed land and agricultural land in the governorate. Fifty percent of the increase made from governorate local revenues above those specified in the Budget are added to the governorate's Local Fund for Service and Development. The law divided the country into economic regions, each region may include one or more governorate. Each economic region has a capital and should establish a higher committee for regional planning under the chairmanship of the governor of the region's</p> | <p>Determination of the additional tax on commercial and industrial profits not to exceed 5 percent of the original tax and on the additional tax not to exceed 15 percent of the original tax. The governorate local Council may levy local fees after specifying its maximum and minimum. Governorate Local Council may contract loans for productive or investment projects required by the governorate or local units within its boundaries. If the loan is from a foreign entity, Cabinet approval is required.</p> |

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| Country/Region | Law No. 43/1974 | Law No. 52/1975 | Law No. 43/1979 | Proposed Amendments | |
|--|--|-----------------|-----------------|---|--|
| <p>16) Financial Resources and Other Characteristics (continued)</p> | <ul style="list-style-type: none"> - Registration fees for cars, motor-cycles and all other vehicles registered in the governorate. - One-half the price of sale of government-owned buildings and land within its boundaries. - Revenues of Council money and services operated by it. - Government aid and non-governmental donations. - Other taxes and fees of local nature that lie in the interest of the Governor's Council. - Loans contracted by the Council not to exceed ten percent of its budget after approval of the Minister of Local Government. Loans between 10-20 percent require approval of the Ministerial Committee for Local Government. Any loan in excess of 20 percent requires a Presidential decision. | | | <p>capital. The Committee is responsible for carrying out the studies necessary for identifying the natural human capabilities and resources of the region, methods of developing them and proposing the required economic and social development projects in the region.</p> | |

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SCOPE OF SERVICES
FOR THE PROVISION OF
CONSULTING ENGINEERING AND MANAGEMENT ADVISORY SERVICES
FOR THE
PROVINCIAL CITIES DEVELOPMENT PROJECT

A. GENERAL

The SERVICES to be provided by the general consultant are described in this SCOPE OF SERVICES.

Nature of the Advisory Services

In order to assist Beni Suef, Fayoum, and Menia (the cities) in the administration and management of their development program, the consultant will provide engineering and management advisory services that will involve:

- (a) Preparation of comprehensive system plans for water and sewer services in the cities.
- (b) Review of current organizational, technical, administrative, planning and managerial procedures employed by the cities, and preparation of a plan setting forth recommendations for improvements.
- (c) Advice in connection with the cities' technical review of designs, plans, and specifications to be submitted by engineering design consultants (not the consultant).
- (d) Continuing advice and specific recommendations to the cities as to administration, management of systems, accounting and budgeting, training, planning and programming, project management, and maintenance and operations of completed facilities.

The assistance will be divided into six major parts

- Part I - Water and Sewer System Plans
- Part II - Diagnostic Reviews
- Part III - Development of Implementation Plans
- Part IV - General and Functional Management Advisory Services
- Part V - Engineering and Project Management Advisory Services
- Part VI - Training

It is recognized that the Implementation Plan that will be developed in Part III will to a substantial degree determine the final scope of services and related person-month levels of effort for succeeding Parts (Part IV, V and VI) and that the tasks and activities enumerated in those related sections of this Scope of Services are only indicative of the areas within which the consultant will provide advisory services.

Location of the Work

The services to be rendered shall be performed in Beni Suef, Fayoun, Minia, Cairo and in the U.S. offices of the consultant. Those services which can be more economically performed in the U.S. offices may, subject to agreement between all parties, be performed there. All other services will be performed primarily in Beni Suef, Fayoun, and Minia through advisors in those cities.

Relationship between the Cities and the Consultant

To the extent practicable, the consultant will work closely with the cities' mayors and technical representatives to facilitate the cities' maximum involvement in the planning, reviews, analyses and recommendations, as well as in the integration of the new or modified systems and management techniques into the daily routines of city personnel.

The consultant will assist the cities in the review of engineering design, plans, specifications, contract documents or tender evaluations and the concepts or processes depicted therein.

B. Work Plan

Part II - Diagnostic Review of the Cities

Part I - Water and Sewer System Plans

Studies will be undertaken by the consultant to prepare comprehensive system plans for water and wastewater services in each of the three cities. The studies should address the inadequacy of water and sewer services in developed and developing areas and the social impact of such service shortages, problems of operation and maintenance of the existing services, pollution of major surface waters, and poor health conditions in many sections of the cities. Working with city technical staff while using the most recent planning techniques and principles of environmental engineering, the consultants will prepare development plans for the period from the present to the year 2000. This work shall be coordinated by the consultant with the various CDE agencies and consultants preparing the physical plans of the cities. The work involved will include but may not be limited to:

- 1.1 A detailed assessment of existing facilities and conditions of the water and sewer systems of the cities.
- 1.2 A determination of the factors which affect the design of existing system improvements and the development of new facilities.
- 1.3 Studies, analyses, and projection of the system requirements in terms of capacity, extensiveness, and appropriate technologies.
- 1.4 Development and comparison of alternative solutions to meeting system requirements followed by selection of a preferred plan in conjunction with the cities, taking into account economic and functional constraints.
- 1.5 Selection of Top Priority Projects for immediate construction or equipment needs in each city along with staged development programs to implement the recommended system plans, including, immediate paving and/or repaving needs of the cities, and assistance in the preparation and award of contracts as approved.
- 1.6 Preparation of conceptual designs and cost estimates as well as economic, social, and environmental feasibility analyses of both Top Priority and Stage One Projects for implementation.

These plans shall be prepared in such a manner that they will provide an information base from which the elected city councils can make more informed and realistic judgements concerning both short and long-term plans for water and sewer system development. A major objective of the work will be the determination of an early construction program, which would provide maximum benefit to the cities and still be consistent with long-term planning goals.

2.1 Review Cities Operations and Procedures

- a. Assemble and Review Data on the Cities
- b. Discuss Organizational Development with the Cities Management
- c. Make Site Visits to the Cities Facilities and Divisions

A series of initial introductory meetings will be conducted with the cities' senior management, officials, and the other consultants serving the cities, to develop an understanding of project objectives and requirements.

The initial collection and cataloging of technical, statistical, performance and procedural data will be undertaken. This will include relevant prior and current studies such as the Management and Tariff Studies relative to Water/sewerage Systems and the Report on Provincial Water Supply Systems. It is recognized that some of this material will be in Arabic and require that translation be performed by qualified outside translators.

A series of discussions will be held between the consultants project team and the cities' management related to organizational development and short to long-range development program objectives.

Familiarization site visits will be carried out to various city plants, facilities, divisions, general office, etc. during this initial inquiry phase.

2.2 Assessment of Level of Workload Facing the Cities During Entire Development Program Period.

The results of the initial interviews, meetings, inquiries and studies will be synthesized to assess the magnitude and scope of the work which the cities must face to administer the phased development program.

2.3 Assess the Cities Program Development Requirements

- a. Evaluate Present City Staff Capabilities
- b. Determine Staffing Needs to Handle Development Program
- c. Analyze Funding and Other Resource Constraints

Through analysis and assessment of the material and information obtained, an initial evaluation of existing city staff capabilities will be performed. A preliminary evaluation of phased staffing requirements will be also conducted.

Review of the phased development program will be performed to ascertain the type and level of resource constraints including human, physical and financial.

2.4 Identify Alternative Management Development Strategies Open to the Cities

Alternative management development strategies will be formulated and discussed with the cities.

2.5 Present Summary Report of Initial Findings to the Cities

The findings and conclusions of this initial diagnostic phase will be reviewed with senior city management staff and presented in a Summary Report. At this time any additional, required advisory support assistance will be identified and recommendations will be submitted to the cities and AID.

PART III - DEVELOPMENT OF IMPLEMENTATION

Based on the findings and conclusions produced as a result of the Parts I and II (Plans and Diagnostic Reviews) the consultant will develop Implementation Plans that will include:

- Strategic and Organizational Guidelines
- Recommended Management Improvements
- Engineering and Project Management Requirements
- Overall Development Program Execution Schedule
- Supplemental O&M Funding Requirements
- Incremental Training Requirements
- O&M Program and Practice Requirements
- Assessment of Data Processing Needs

This Implementation Plan will define the actual scope of advisory services tasks and activities as well as the priorities to guide the work during the remainder of the contract period, i.e., parts IV, V and VI.

3.1 Develop Strategic and Organizational Guidelines

- a. Reach Agreement with the Cities on Management Strategy
- b. Prepare Management Strategy Statement
- c. Identify Policy Issues for the Cities resolution
- d. Outline Phased City Organizational Development Plan

3.2 Develop Recommendations for General and Functional Management Improvements.

- a. Organizational and Personnel
- b. Financial Planning and Control
- c. Materials Management
- d. Operating Methods
- e. Management Information Systems
- f. General Management

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- 3.3 Develop a system to determine the criteria and procedures to be applied in the selection and execution of subprojects including
 - a. Technical Feasibility
 - b. Cost
 - c. Economic and Social Considerations
 - d. Maintenance Requirements
 - e. Environmental Considerations, where appropriate
- 3.4 Determine Scheduling, Integration and Coordination Requirements of Program Development Elements
 - a. Grant Proposal Preparation
 - b. Top Priority Projects
 - c. Procurement of Additional Required Equipment, Plant and Services
 - d. Master Plan - Stage I Execution
 - e. City In-House Activities
- 3.5 Develop Overall Program Development Execution Schedule
- 3.6 Determine City's Supplemental O&M Funding Requirements
- 3.7 Identify Incremental Training Needs
- 3.8 Identify O&M Program and Practice Requirements
- 3.9 Assess Needs for Data Processing
- 3.10 Prepare and Submit Implementation Plan Report for Approval by Cities and AID.

INTRODUCTION TO PARTS IV, V AND VI

Through these parts, the consultant will provide advisory services in certain engineering and management areas as specified below. Such services will be limited to the best efforts of the consultants resident staff as supplemented from time to time by home office specialists within the man-month allocations and are not intended to cover all the tasks and activities enumerated below. Only upon completion of the Implementation Plans prepared during Part III and approved by the cities and AID, will the focus and required level of professional effort be ascertained.

PHASE III - GENERAL AND FUNCTIONAL MANAGEMENT ADVISORY SERVICES

The general and functional management areas within which work will be performed are as follows:

- Organizational and Personnel
- Financial Planning and Control
- Material Management
- Operating Methods/Productivity Improvement
- Management Information Systems
- General Management

While the implementation plans will fully define and refine the long term institutional strengthening tasks, the consultant will provide advisory services during Part IV related to the initiation of such activities, as the following:

- 4.1 Design, Develop and Implement Improved Organizational and Personnel Policies and Practices
 - a. Develop and Document Organizational Policies and Practices
 - b. Develop Job Classification System
 - c. Prepare Position Descriptions
 - d. Prepare Detailed Staffing Plan
 - e. Develop Wage/Salary Practices and Administrative Procedures
 - f. Develop Personnel Recruitment, Selection, Performance Evaluation and Promotion Practices
 - f. Prepare Organization and Personnel Manual(s)

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- 4.2 Design, Develop and Implement Improved Financial Planning and Control Policies and Practices
 - a. Design/Develop Improved Financial Planning and Control Systems and Procedures
 - Chart of Accounts
 - General Accounting
 - Cost Accounting
 - Budgeting
 - Internal Auditing
 - Management Reporting
 - b. Implement Systems and Procedural Improvements
 - c. Provide Financial Planning Assistance
 - Utility Fund Planning
 - Capital Budgeting
 - Operational Budgeting
 - Rate Analysis/Revenue Projection
 - Cash Flow Analysis
- 4.3 Design, Develop and Implement Improved Material Policies and Practices
 - a. Design/Develop Improved Material Management Systems and Procedures.
 - Physical Asset Management
 - Procurement
 - Inventory Management
 - b. Implement Systems and Procedural Improvements
 - c. Provide Material Planning and Control Assistance
- 4.4 Design, Develop and Implement Operational Management
 - a. Assess Operating Methods and Procedures
 - Work Flow
 - Productivity
 - Performance Standards
 - Method Improvement
 - b. Design Productivity Improvement Program
 - c. Implement Productivity Improvement Program

- 4.5 Design, Develop and Implement Management Information Systems
 - a. Design Conceptual-Level System
 - b. Determine Data Processing Requirements
 - c. Design and Document Detailed Information System
 - d. Provide Implementation Assistance
- 4.6 Provide General Management Counsel to the Cities

PART V - ENGINEERING AND PROJECT MANAGEMENT ADVISORY SERVICES

In Part III a comprehensive review of the planned development program and the cities' in-house projects currently underway, is initiated. This review will continue in Part V. Principal areas of advisory services related to engineering and project management will focus on:

1. General Development Program Management Assistance
2. Project Oriented Management Assistance

Supplementary to these main work streams, special work activities are anticipated in the following:

- Specific Systems Operations Assistance
- Obtaining Additional Consulting Services
- Special Studies and Designs
- Procurement of Equipment and Supplies
- Project Completion Follow-up
- Technical Reference Library
- Public Relations Program

The findings, conclusions and recommendations developed in the Implementation Plan will be considered during the execution of Part V. The consultant will provide advisory services during this phase related to the initiation of these activities as listed below:

- 5.1 Review On-going and Planned Development Program
 - a. Management and Tariff Studies Relative To Water/Sewerage Systems
 - b. Water and Wastewater Facilities Master Plan
 - c. Top Priority Projects
 - d. Coordination with City Physical Master Plans
 - e. Systems Plan Stage I Facilities
 - f. Future Studies, Projects and Programs

- 5.2 Prepare Supplemental Funds Requests for the Cities Maintenance and Operational Requirements.
- 5.3 Provide General Program Management Assistance to the Cities
 - a. Assist in Planning, Coordination and Scheduling of Various Program Elements
 - b. Assist in Standardization of Design Criteria, Grant Proposals Elements Documentation, etc.
 - c. Develop Program Budget and Financial Control Systems
 - d. Assist in Standardization of Operations and Maintenance Elements
 - e. Examination of Alternatives and Assist in Implementation of Water and Wastewater User Rates Including Legal and Financial Issues.
 - f. Report to the cities and AID on the Overall Feasibility of Specific Development Sub-Projects to be Financially sound.
- 5.4 Provide Project Management Assistance to the Cities
 - a. Develop Scope of Work for other Consultants, Review Consultants Proposals, Advise on Award of Contracts.
 - b. Develop Systems to Monitor Activities of Consultants and Contractors
 - c. Assist the Cities in their Review of Reports, Studies and Designs of Other Consultants
 - d. Advise on Value Engineering Analyses Performed for the Cities
 - e. Assist the Cities' Review of Cost Estimates and Construction Tender Documents
 - f. Assist the Cities Review of Contract Prequalification Procedures and Results
 - g. Assist the Cities in their Evaluation of Tenders for Construction and Supplies
 - h. Assist the cities in the Analysis of Contract Change Orders
 - i. Participate in Design/Surveillance Conferences
 - j. Assist the cities to Correct System Operating Deficiencies

- k. Advise the cities on their Review of O&M Manuals and Procedures -
- l. Assist the Cities to Implement Street, Water and Sewer Maintenance Programs.
- m. Advise on the cities Review of Design, Construction, Procurement Schedules
- n. Advise on the cities Processing of Consultant, Contractor and Supplier Invoices
- o. Assist the Cities Final Inspection of Construction
- p. Advise on Evaluation of In-factory and Start-up Equipment Tests
- q. Assistance in the Monitoring and of Control of Project Funds
- r. Assist in Meeting AID Monitoring Requirements
- 5.5 Provide Specific System Operating Assistance
 - a. Relevant Technical Specialists for Facility Operations
 - b. Street, Water and Sewer Maintenance Specialist
- 5.6 Assist the Cities to Obtain Additional Consulting Services
 - a. Advise in the Development of Design/Surveillance Scopes of Work
 - b. Assist in Prequalification and Selection of Consultants
 - c. Assist in Negotiations with Consultants
- 5.7 Advice on Special Studies as Requested
- 5.8 Assist in Determining Needs and Procuring Equipment and Supplies
- 5.9 Assist in Requiring Contractors and Suppliers to Honor Warranties
- 5.10 Assist in Selecting Publications for Establishment of a Technical Reference Library in each city

PART VI - TRAINING OF CITY STAFF

During PART III the incremental training needs will be ascertained. During this Part VI these incremental training needs will be addressed. This will include the development of a training plan for city staff.

While the Part III Implementation Plan will detail the advisory services to be provided in Part VI, it is currently envisioned that the following activities will be initiated to the extent possible:

- 6.1 Determine Overall Training Needs of the Cities
- 6.2 Identify Training Programs Open to City Personnel
- 6.3 Supplement Training Provided by Other Sources as Required
- 6.4 Develop Additional Training Programs and Budgets, i.e.:
 - a. Training of City Department Heads
 - b. Training of Trainers
 - c. On-the Job Training
 - d. In-country Special Skills Training
 - e. Short-term U.S. Training of Key Staff (if necessary)
- 6.5 Develop Training Course Materials

Bill for Presidential Decree No.... of 1980, Establishing the National Authority for Potable Water and Sanitary Drainage

The President of the Republic has, after perusal of the Constitution, and of

-Law No. 93 of 1962, concerning drainage of liquid refuse, and of

-Law No. 61 of 1963, on General Authorities, and of

-Law No. 129 of 1964, concerning the Comptroller General Bureau, and of

-Law No. 44 of 1965, organizing the control of accounts of General Authorities, Foundations, companies and establishments auxiliary to them, and of

-Law No. 62 of 1947, concerning some provisions on reconstruction and their amendments, and of

-Law No. 47 of 1978, promulgating the Civil Service System, and of

-Law No. 43 of 1979, promulgating the local government system laws, and of

-Presidential decree No. 1636 of 1968, establishing the General Authority for Potable Water, and of

-Presidential Decree No. 1637 of 1968, establishing the General Authority for Sewers and Sanitary Drainage, and of

-Presidential Decree No. 1638 of 1968, establishing the General Authority for the Greater Cairo Water Supply, and of

-Presidential Decree No. 1639 of 1968, establishing the Alexandria Water Supply General Authority, and of

-Presidential Decree No. 363, establishing the General Authority for Sanitary Drainage for the Alexandria Governorate and of

The approval of the Council of Ministers, and

-In accordance with the opinion of the State Council

Decreed:

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Article 1: The establishment of a General Authority to be named "The National Authority for Potable Water and Sanitary Drainage". It will have its seat in Cairo City, will have a juristic person status, and will be auxiliary to the Minister concerned with Housing. It will be subject to the provisions of the General Authorities law and will be concerned with drawing up the policies and plans for potable water and sanitary drainage, or national level, as well as with carrying required studies and specifications, and will supervise the execution of big national projects which exceed the possibilities of local authorities or serve more than one governorate.

Article 2: The responsibilities and purposes of the Authority are determined as follows:

- 1) Make general plans, for the entire republic, for potable water and sanitary drainage works, and prepare all pertaining programs for their execution, in order to include them in the State's General Plans, and follow up their execution.
- 2) Coordination between plans and projects of potable water and sanitary drainage to secure their integration.
- 3) Make applied researches and studies concerning water suitable for drinking, or for home or general use, as well as studies and researches pertaining to sewers and sanitary drainage, and also participate in setting standards for the suitability of potable water and for drainage of liquid refuse.
- 4) Setting up conditions, standards and technical specifications for sewers and sanitary drainage and for water suitable for drinking or for home or general use in production projects.
- 5) Give technical counsel in the spheres of potable water and sanitary drainage.
- 6) Establishment of training centers for raising production sufficiency in specifications, execution, operation and maintenance of water and sanitary drainage utilities.
- 7) Assisting the governorates in required researches, and preparing specifications for the large projects and for the projects of special nature and supervision of their execution when requested to do so. This assistance will be extended against fees which the Administration Board will fix in a special schedule.

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8) Assisting the Governorates in preparing the contracts relative to projects referred to in item 7 of their Article, and in accordance with specification and conditions which have been set for them and formed the subject of local and foreign lenders, as well as the analysis of offers received.

For the purpose of carrying out the work required from it the Authority may seek the assistance of specialized local or foreign consultant bureau.

Article 3: The Authority's Administration Board will be constituted as follows:

- Chairman of the Administration Board.
- Four senior officials at the Authority, to be selected by the Minister of Housing upon the proposal of the Chairman of the Administration Board.
- Heads of the Water Supply and Sanitary Drainage Public Utilities in the Governorates of Cairo, Alexandria and the Canal.
- State Counselor for the Ministry of Housing.
- UnderSecretary for Reconstruction, to be selected by the Minister.
- UnderSecretary for Planning, to be selected by the Minister.
- UnderSecretary for Irrigation, to be selected by the Minister.
- UnderSecretary for Health, to be selected by the Minister.
- Four members from among experts in potable water and sanitary drainage affairs, to be selected by the Minister of Housing, for a period of two years, which might be renewed.

Article 4: The Authority's Administration Board is the highest authority supervising and managing its affairs. It may take whatever decisions it considers necessary for achieving the purpose for which it was established, and in particular:

- 1) Propose the general policies and plans for potable water and sanitary drainage all over the republic.
- 2) Confirmation of the conditions and specifications on the basis of which its potable water and sanitary drainage projects will be carried out, as well as approval of the results of researches.
- 3) Issuing statutes and organizational regulations pertaining to the Authority's fiscal and administrative affairs and to its personnel.

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4) Drawing up the objectives and general policies governing the sources of water and their use, and the projects of other public utilities in particular those of production, distribution of potable water, and sanitary drainage, through coordination with the Ministries of Irrigation and Health.

5) Establishment of training centers for raising efficiency in production, specification execution, administration, operation and maintenance of the Water Public Utility and the Sanitary Drainage Public Utility.

6) Approval of the annual planning budget estimates, the budget and the balance sheet of the Authority.

7) Making proposals for the loans to be concluded for the benefit of the Authority.

8) Accepting subexecutions, gifts, donations and bequests.

9) Consideration of the periodic reports on the Authority's operations and on its financial position.

10) Consideration of the matters, which are within the competence of the Authority, submitted by the Minister of Housing and the Chairman of the Administration Board.

The Board may entrust some of its competence to a committee from among its members, or to its chairman, or to one or more of the Directors of the Authority. It may also entrust one of its members or one of the Authority's Directors with carrying out a definite mission.

Article 5: The Chairman of the Administration Board will call for the meetings of the Board, at least once every month, and the Board will also hold a meeting whenever the Minister of Housing or the Board's Chairman finds that there is a necessity for such a meeting. If the Minister attends the meeting, he'll preside over.

There will be no quorum unless the majority of members attend, and the decisions will be taken by a vote of the majority of members attending the meeting, and in case of equal voting the Chairman's side will preponderate. In case of absence of the Chairman, the meeting will be recorded and the Chairman will sign the minutes sheet.

The Board may invite to its meetings anyone whose experience and knowledge, it wishes to avail itself of, but without voting right.

Article 6: The Chairman of the Authority's Administration Board will notify the Board's decisions to the Minister of Housing, within seven days from the date on which they are taken, for his approval, and the said decisions will not be executory except after the Minister's approval or after the lapse of 30 days from the date on which they reach him and without objecting on them. However, exception is made for matters requiring decision by another Authority.

Article 7: The Chairman of the Authority's Administration Board will assume its administration in accordance with the provisions of the Public Authorities' law, of this decree and of the statutes which the Administration Board will make. He will also be responsible for the implementation of the general policy drawn up for achieving the purposes of the Authority, and also the implementation of the decisions of the Administration Board. He may entrust some of his competence to one or more of the Directors. He will represent the Authority in its relations with third parties and before courts of justice.

Article 8: The Authority's revenue will be from:

- 1) Revenues accruing from its activity.
- 2) Funds allocated to it in the State's budget.
- 3) Fees it obtains for the services and works to others within the field of its competence.
- 4) Loans it contracts.
- 5) Gifts and donations accepted by the Administration Board.

Article 9: The auditing and control of the Authority's accounts will be in accordance with the provisions of the laws and decrees promulgated on control and audit of the accounts of General Authorities.

Article 10: The Authority may draw up a system for its personnel, comprising wages, incentives, allowances, pension and advantages within in kind or cash, whichever is suitable to the nature of the Authority's activity.

Article 11: The Authority will have an independent budget and balance sheet, which will be prepared in accordance with the rules in force for the State's budget, as well as determining the start and end of the fiscal year.

The Chairman of the Administration, or whoever acts on his behalf, will prepare the draft of the budget and submit it to the Administration Board for its approval on the dates fixed for this end.

Article 12: Will revert to the Authority the funds, assets, rights and commitments of the General Authority for Potable Water and the General Authority for Sewers and Sanitary Drainage, which will be determined by a decree by the Minister of Housing in agreement with the Minister of Finance.

Article 13: The allocation for the projects which the Authority executes for the account of the Governorates will be included in the budgets of the Governorates and be at the disposal of the Authority, on the condition that ownership of the projects will, after completion of their execution, be transferred to the governorates concerned with all their respective rights and commitments so that they assume their management, operation, maintenance and settlement of relevant commitments.

Article 14: To preserve its rights the Authority may take the procedures provided for in the Administrative Distraint Law.

Article 15: The systems, statutes and decrees in force on the Authority and its personnel remain valid, in what does not contravene the provisions of this decree, with the Authority issues a substitute.

Article 16: The Governorates will undertake the establishment, administration, operation and maintenance of potable water utilities, and will also establish, manage and maintain the drainage utilities in each of them respectively.

The large water public utilities now under the Potable Water General Authority will revert to the respective governorates, as well as all that concerns them from the annulled rights and commitments of the Authority which will be determined by a decree by the Minister of Housing.

Article 17: Necessary procedures will be taken for the transfer of those working at the General Authority for Potable Water and at the General Authority for Sewers and Sanitary Drainage to the National Authority. They will be determined by a decree by the Minister of Housing; and they will retain all prerogatives granted to them. Necessary procedures will also be taken for the transfer of their grades to the Authority's budget. This will be done in agreement with the central bureau for Organization and Administration and the Minister of Finance.

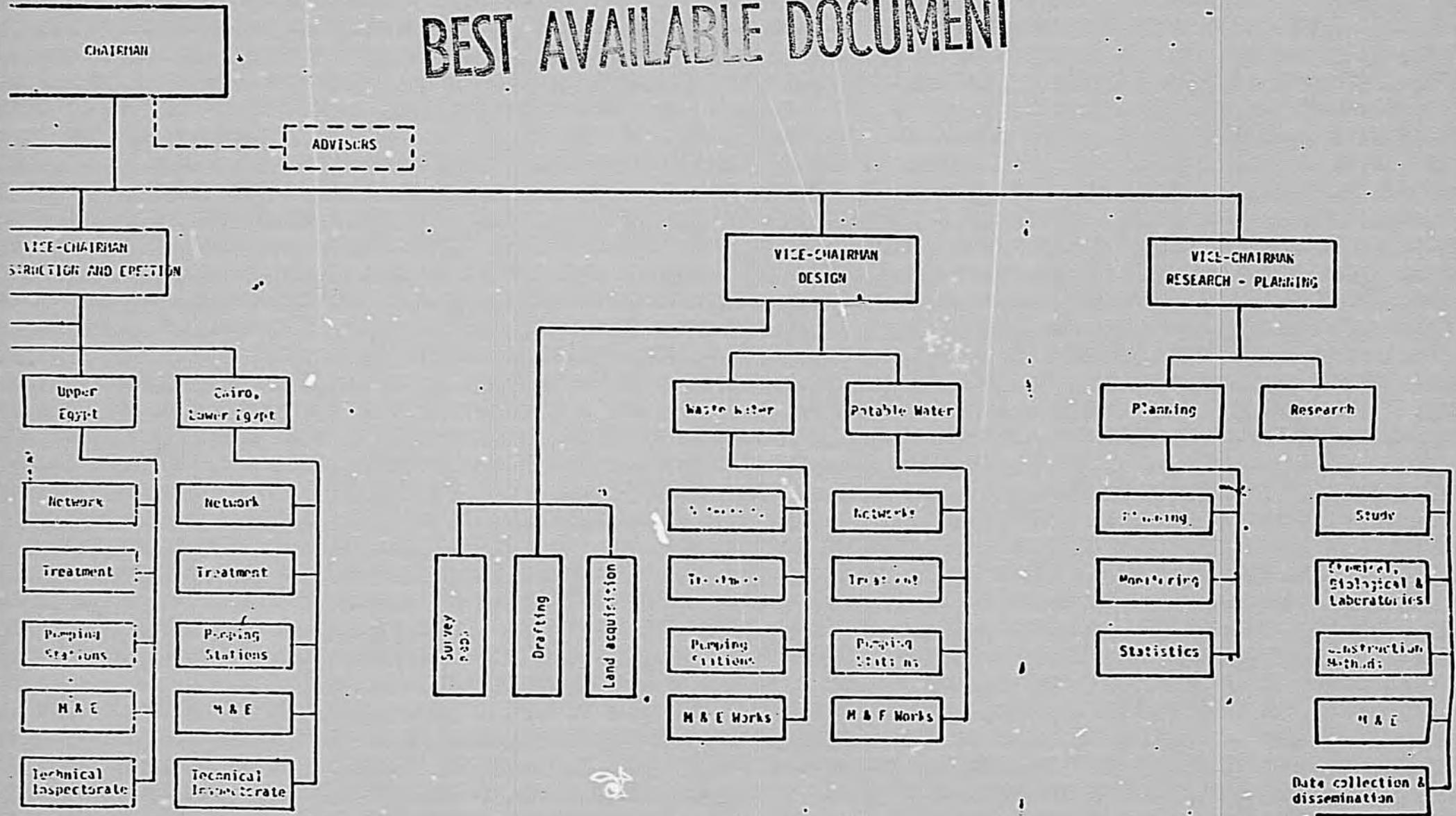
Article 18: This decree will be published in the Official Gazette and will come into force as from the date of its publication. It is for the Minister of Housing to issue the necessary decrees for its implementation.

Translated by: A.M. Mateos: 2/11/81

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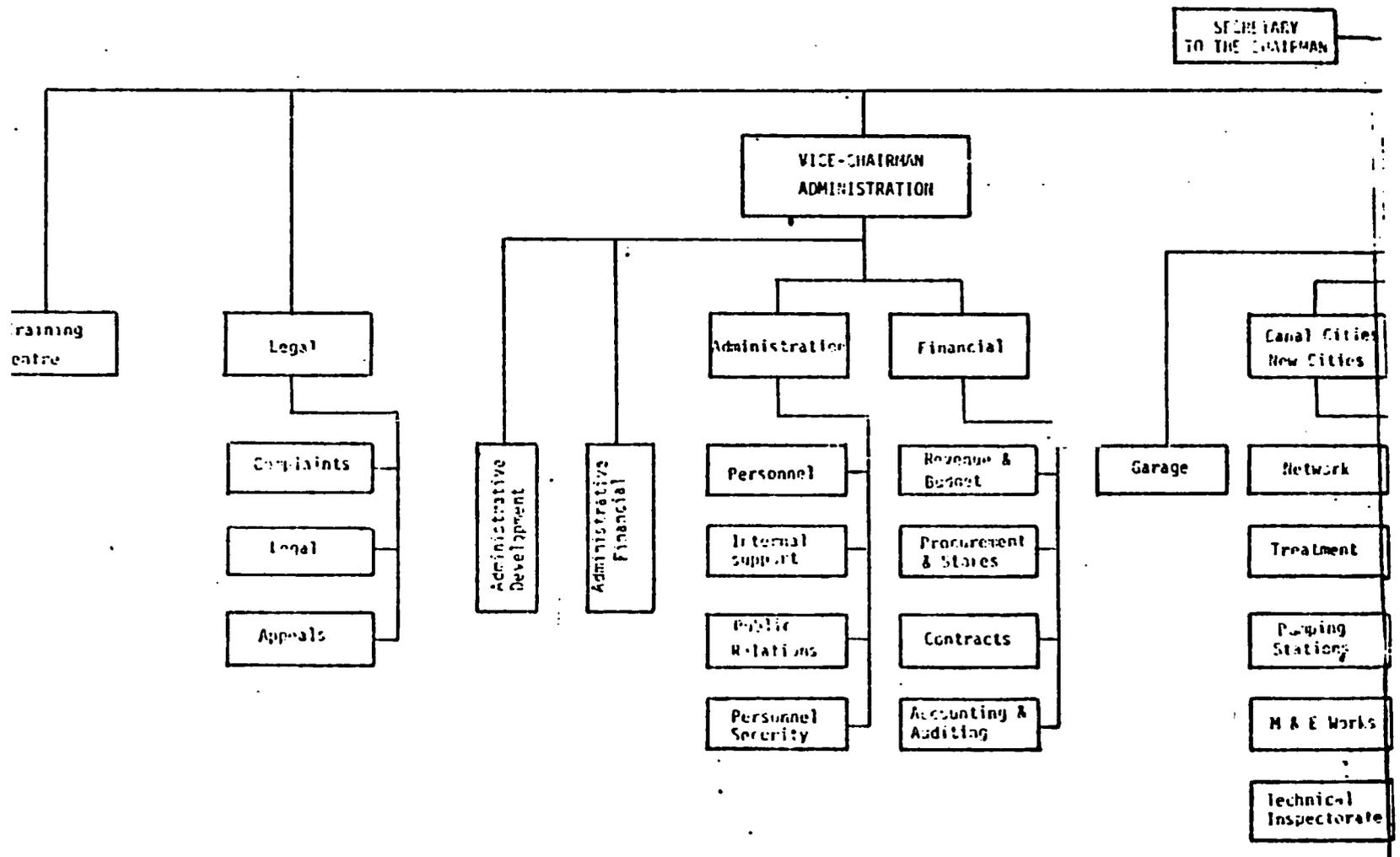
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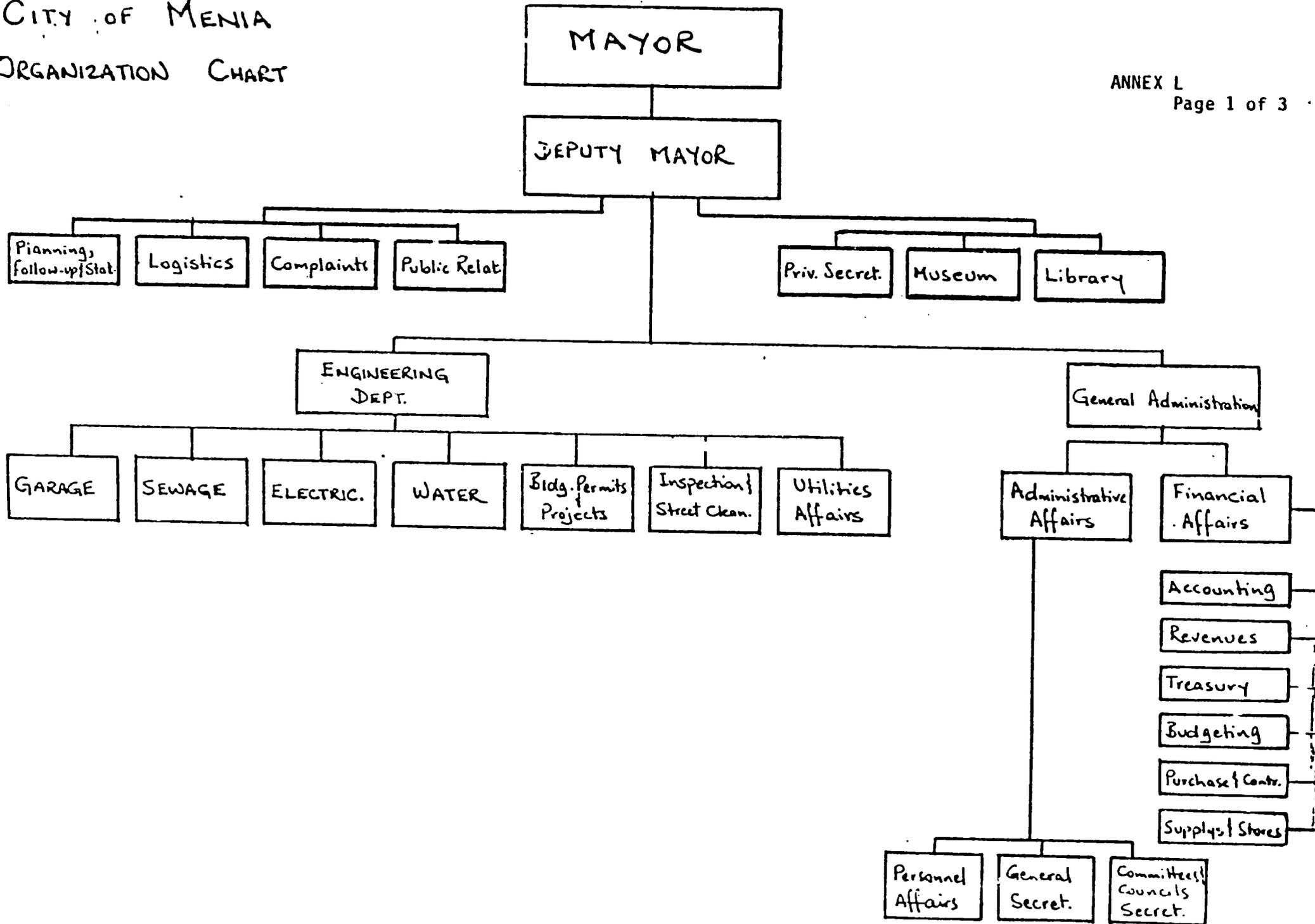


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*National Organization
for
Potable water and wastewater
Projects*

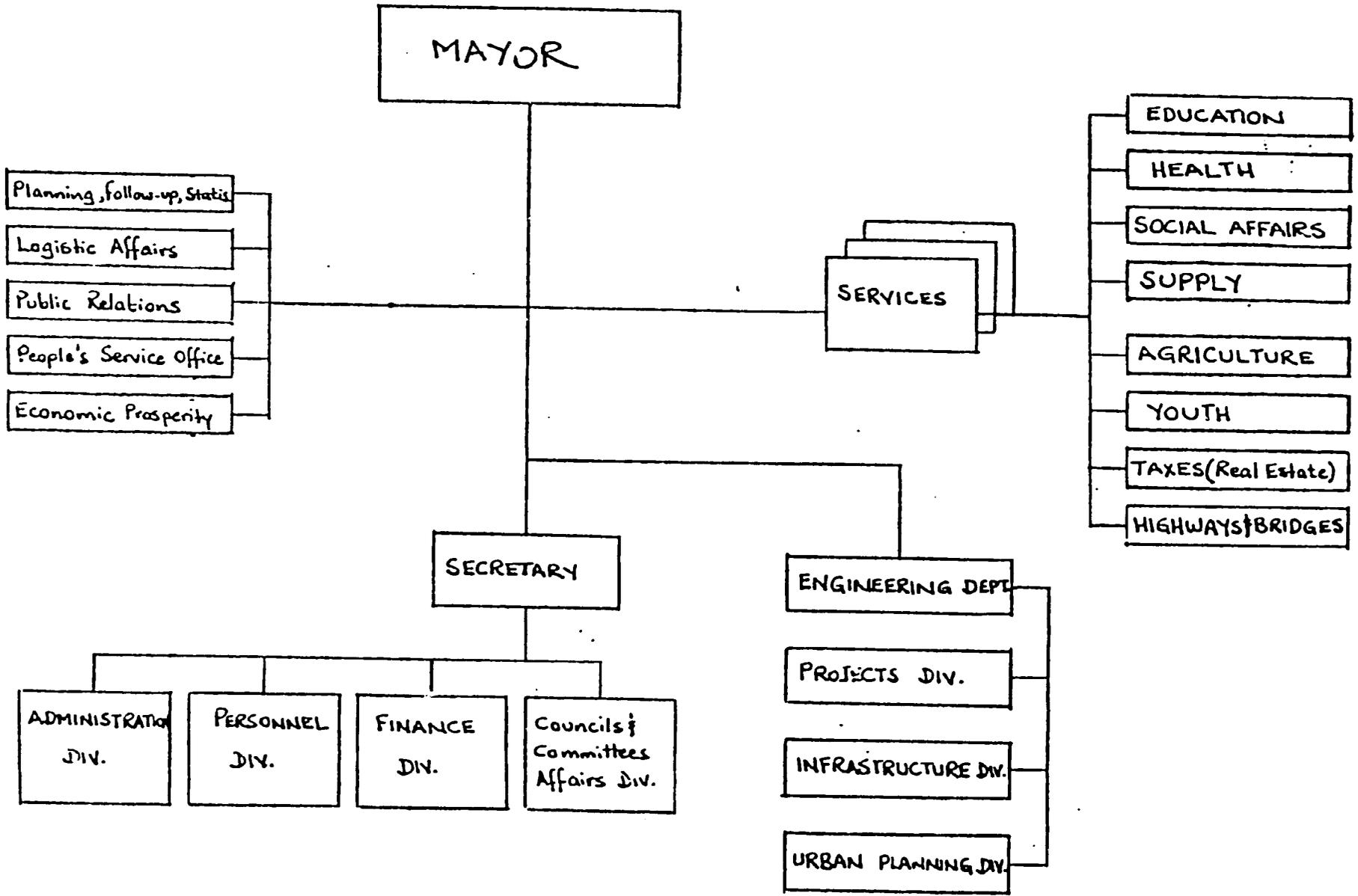


CITY OF MENIA
ORGANIZATION CHART



1991

CITY OF FAYOUM
ORGANIZATION CHART



memorandum

DATE: August 6, 1981

REPLY TO
ATTN OF: NE/PD/PDS, Stephen F. Lintner, Bureau Environmental Coordinator *SFL*

SUBJECT: EGYPT - Provincial Cities Project Paper (263-0127) - Environmental
Clearance

TO: NE/TECH/SARD, John Lewis, Project Chairperson

I have reviewed the subject proposed project and find that the procedures proposed by the Mission for addressing environmental concerns fulfill the requirements of 22 CFR 216, "A.I.D. Environmental Procedures". The project requires a "positive Determination" rather than a "Negative Determination" as proposed by the Mission as it will result in a significant impact on the environment, despite its generally beneficial nature. It should be noted that the results of the "scoping sessions" and the individual Environmental Assessments will require formal review and approval by the Bureau Environmental Coordinator "prior to initiating disbursement for the construction or material modification of the waste water plants (IEE)".

cc: GC/NE, T. Carter
AID/Cairo, W. McAleer, Mission Environmental Officer
AID/Cairo, L. M. Hager, Senior Legal Advisor
AID/Cairo, G. Hazel, Mission Project Chairperson
AID/Cairo, I. E. Wallen, Mission Environmental Advisor
AID/Cairo, G. Curley, Mission Environmental Advisor

LE (000)

CITY OF FAYOUM
ILLUSTRATIVE CAPITAL EXPENDITURE

A. WATER

1. Filtration

Provide new 393 LPS water treatment plant 5,109

Upgrade Kohafa Plant 100

2. Filtered Water Storage

Provide for huge increase in filtered water storage by installing 3,682 M3 in elevated storage and 6,569 M3 in underground storage. Essential to make system function effectively. 2,607

3. Primary Water Network

Expand existing water primary network to serve all developed areas within city and provide for increase in projected population to 1990. 1,518

4. Trunk and Reinforcing Mains

Expand trunk system to facilitate delivery of water to network in all sections of city install reinforcing mains as detailed survey yet to be made will indicate. 380

5. Water Metering

Expand metering service to all premises to be served by system. 717

6. Other Improvements

Provide for additional pumping capacity as required. 100

Provide for network rehabilitation as required. 500

Total for Water Systems 11,031

143

LE (000)

B. WASTE WATER

1. Treatment Plant

Provision for modest expansion, late in decade for
expansion of sewage treatment plant 405

2. Primary Network Extension

Extend primary sewage network to provide for all
premises in city through 1990. 3,541

3. Other Improvements

Upgrade Lotfalla booster station 75
Refurbish old sewage treatment plant 250
Provide for new waste pumping station 2,000
6,271

C. STREETS

1. Pave existing unpaved streets 2,200

2. Pave additional streets. 1,092

Total for streets 3,292

TOTAL CAPITAL EXPENDITURES FOR FAYOUM CITY 20,594 (\$29,449)

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BENI SUEF
ILLUSTRATIVE CAPITAL EXPENDITURES

LE (000)
PBS
REPORT

A. WATER

1. Filtration

Complete the water treatment plant under construction, including installation of supplemental facilities to make operational to designed capacity and installation of standby generating equipment. 211

Prepare for expansion of plant in late 1980s 170

2. Filtered Water Storage

Bring total storage capacity to 6 hours of filtration capacity, involving installation of 2,636m³ elevated storage and 518m³ underground storage. 974

3. Primary Water Distribution Network

Expand by about 80 percent to accommodate present and prospective population to 1990. 1,238

4. Strengthening Trunk and Reinforcing Water Mains

Help to overcome distribution problems in areas currently served and to provide for additional population to 1990 by installation of additional trunk mains and reinforcing mains. 506

5. Improve Water Metering Services

Provide for metering of each building, and preferably each apartment, using water (to 1990). 616

145

| | <u>L.E (100)</u> |
|---|--------------------------|
| 6. <u>Other Water Improvements</u> | |
| Provide for improvements in the general pumping capacity to help overcome low pressure problems in distribution system. | 100 |
| Provide a lump sum to facilitate rehabilitation of water network. | 500 |
| | <hr/> |
| Total Water Systems | 4,315 |
| | |
| B. <u>WASTE WATER</u> | |
| 1. <u>Sewage Treatment</u> | |
| Calculated requirement for additional sewage treatment facilities for 1990 indicated at 63 LPS. Not critical at present. | 1,247 |
| 2. <u>Primary Sewer Network</u> | |
| Vast expansion required to meet needs of present and prospective population and to make effective use of water treatment and sewage treatment facilities to be available. | 2,563 |
| 3. <u>Other Waste Water Requirements</u> | |
| Provide for additional drying beds and for booster pumpstations and force mains | 1,200 |
| | <hr/> |
| Total Waste Water System | 5,010 |
| | |
| C. <u>STREET PAVING</u> | |
| 1. Provide for paving of all presently unpaved streets | 2,000 |
| 2. Provide for additional paving. | 1,040 |
| | <hr/> |
| Total Streets | 3,040 |
| | |
| TOTAL CAPITAL EXPENDITURE FOR BENI SUEF CITY | 12,365 (\$17,681) |

146

MENIA
ILLUSTRATIVE CAPITAL EXPENDITURES

| | | <u>L.F. (000)</u> |
|----|--|-------------------|
| A. | <u>WATER</u> | |
| 1. | <u>Treatment Facilities</u> | |
| | Construct new water treatment plant with 246 LPS capacity and associated facilities. | 3,198 |
| 2. | <u>Filtered Water Storage</u> | |
| | Vastly expand filtered water storage facilities by installation of 2,853M3 elevated storage and 6,412M3 underground storage. | 2,223 |
| 3. | <u>Primary Distribution Network</u> | |
| | Expand primary network to provide for presently unserved premises and for additional premises through 1990. | 1,858 |
| 4. | <u>Trunk and Reinforcing Mains</u> | |
| | Significantly improve trunk and reinforcing mains to assure delivery of water to primary network. | 750 |
| 5. | <u>Water Metering</u> | |
| | Provide for expansion of water metering to all premises not now serviced and additional projected premises to 1990, preferably on a separate meter for each dwelling unit. | 771 |
| 6. | <u>Other Water Supply System Items</u> | |
| | Rehabilitate 1967 treatment plant to secure full 200 LPS designed capacity. | 200 |
| | Provide additional pumping capacity as required | 100 |
| | Provide for rehabilitation of existing primary network. | 500 |
| | | — |
| | Total Water System | 9,600 |

B. WASTE WATER

1. Treatment

Install additional 246 LPS waste water
treatment plant and associated facilities 4,871

Rehabilitate existing waste water plant. 350

2. Waste Water Network

Expand to meet requirements of present
and prospective population. 3,112

3. Other Waste Water Requirements

Increase booster pumping and force main
capacity. 1,000

Rebuild access road to existing treatment plant. 210

Total for Waste Water 9,543

C. STREETS

1. Pave existing unpaved streets 1,600

2. Pave additional streets 936

Total for Streets 2,536

TOTAL CAPITAL EXPENDITURES FOR MENA CITY 21,679 (\$31,000)

TABLE 1
SUMMARY OF PROJECT COSTS FOR SELECTED INFRASTRUCTURE REQUIREMENTS
TO 1990
PROVINCIAL CITIES OF BENI SUEF, FAYOUM, AND MENIA
(monetary amounts in thousands of Egyptian pounds)

| ITEM | PROJECTED FINANCIAL REQUIREMENTS | | | |
|--|----------------------------------|--------------|--------------|--------------|
| | Beni-Suef | Fayoum | Menia | Total |
| | (1) | (2) | (3) | (4) |
| I. POTABLE WATER SUPPLY | | | | |
| A. Filtration plants | 170 | 5,109 | 3,198 | 8,477 |
| B. Filtered water storage | 974 | 2,607 | 2,223 | 5,804 |
| C. Primary distribution network | 1,238 | 1,518 | 1,848 | 4,614 |
| D. Trunk distribution and reinforcing mains | 506 | 380 | 750 | 1,636 |
| E. Water metering system and program | 616 | 717 | 771 | 2,104 |
| F. Other water system items | <u>811</u> | <u>700</u> | <u>800</u> | <u>2,311</u> |
| TOTAL FOR POTABLE WATER | 4,315 | 11,031 | 9,600 | 24,946 |
| II. WASTE WATER | | | | |
| A. Sewage treatment plants | 1,247 | 405 | 4,871 | 6,523 |
| B. Primary sewer network | 2,563 | 3,541 | 3,112 | 9,216 |
| C. Other sewerage and sewage treatment items | <u>1,200</u> | <u>2,325</u> | <u>1,560</u> | <u>5,085</u> |
| TOTAL FOR SEWERAGE AND SEWAGE TREATMENT | 5,010 | 6,271 | 9,543 | 20,824 |
| III. Street | | | | |
| A. General paving | 3,040 | 3,292 | 2,536 | 8,868 |
| TOTALS, excluding provision for engineering; systems design; training; installation of new planning, financing, budgeting and related systems. | 12,365 | 20,594 | 21,679 | 54,638 |
| | (\$17,681) | (\$29,449) | (\$31,000) | (\$78,130) |

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TECHNICAL ANALYSIS

Operations and Maintenance

As noted in the body of the Project Paper, many existing operating practices in general are good, given the outdated plant and equipment and the absence of recording, monitoring, automatic dosing equipment and other modern accoutrements. However, the operation and maintenance of public infrastructure at the municipal level needs improvement in many areas. Two of the three infrastructure components being addressed in this project are much more complex than street paving or resurfacing. To achieve the highest quality of water delivered to the force mains is the more complex and demanding task, as compared to the O&M of a sewage treatment plant. The general consultant will need to direct a great deal of effort toward the resolution of the problems enumerated below:

A) Water Treatment and Delivery Systems

(1) Absence of Basic Records: There is a general absence of basic records with respect to the control of the quality of potable water and the levels of service being provided. Thus no recording systems are producing reliable management records on any aspect of operations of the plants. As a result the managers of the systems are obliged to rely heavily upon day to day observation and recollections, rather than upon a comprehensive systems of management information ordinarily required in such operations.

(2) Quality Control: Each of the systems has facilities for chlorination; however, relatively little in the way of continuous systematic analysis of either the raw water or the filtered water is available. Responses to questions concerning the levels of residual chlorination both at the plant and at the point of delivery tended to produce a recitation of standards set by the COPW rather than evidence of actual frequent testing. Relatively little testing is done and few procedures are in force concerning the control of minerals or bacteria in the potable water supply.

(3) Filtered Water Storage: The systems of delivery have a wide range between peak and low demands for water. Although filtered water storage (especially elevated storage) has improved markedly over the years, no comprehensive work has been done on the interaction between filtration capacity, water demand, filtered water storage, and pumping capacity.

(4) Water Pipe Condition: Observations concerning the condition of water pipes was limited to examination of some of the pipes that had been removed from the ground for the repair of leaks and breaks. Many of the breaks are due to inadequate installation procedures, especially in terms of failure to provide proper bedding for the pipes at the time of installation.

Electrolysis and quality of the pipes themselves have also been major contributors to the frequency of leaks and breaks, which in some cities are reported at a level of as many as 20 or more per day.

(5) Grid Analysis: No effective continuing analysis of the actual operation of the grid with a view to determining more precisely the variations in pressure at different places, at different times and under different conditions is done. Moreover the causes of low pressure in selected areas, and the high leak and break history are not adequately documented. Thus, there has been little attention paid to the internal encrustations of pipes in terms of impact of distribution problems.

The grid in some cases (both actual and planned) provides for the use of pipe of less than 6 inches in diameter, which constitutes a minimal acceptable size. The absence of an effective grid analysis has resulted in an insufficient attention to the need for reinforcing mains to assist in maintenance of adequate pressure and volume of water delivered.

6) Loss of Water through Waste: There are no data to enable an analysis to be made as to the amount of water now wasted. However, indications are that a substantial amount of water is wasted. Coverage by meters is limited and many of the meters are not working. Thus, water lost through leaky utilization facilities can be significant because there is no incentive to conserve. Even where metering exists and is operating, the very low charges for water (about p.2.5 per cubic meter) encourages excessive usage. Moreover, many public taps are without automatic valves allowing them to remain open even when water is not being taken for domestic purposes. Even automatic closure valves, however, can be weighted or tied off to remain open.

To bring the water systems up to a more acceptable level, actions such as the following need to be taken:

Installation of automatic recording and monitoring equipment and systems.

Acquisition of equipment required and development of associated systems to assure effective detection of leaks and breaks.

Development of standards under which water and sewer mains shall be replaced.

Development and initiation of a program for cleaning and relining of water mains where required.

Development and installation of a program of water meter maintenance, repair, and replacement.

Provision of required equipment and installation of procedures for testing of filtered water to assure compliance with appropriate health standards.

Operations and maintenance procedures also need to be improved for sewerage and roads and will be addressed in the analyses undertaken by the general consultant with each of the cities.

b) Sewerage

In Poné Suf very few breakdowns are experienced throughout the system. Engineers and technicians appear to be dedicated to keeping the system in top operating condition. Every component of two plants showed the results of their efforts.

The labor force at the plant has not been increased during the past ten years, even though the work load has increased. The city engineer has requested increased staffing in his budget however, approval has not been granted as yet.

The sewer network and treatment plant is operating as well as can be reasonably expected, primarily due to the efforts of two engineers and several technicians in key positions. The system is meeting demands on it and with modest rehabilitation will continue to do so.

The two pumping stations are well maintained. Maintenance at the plant, however, is minimal. Mechanical and electrical deterioration and corrosion was so severe that, except for one-fifth of the sewage being filtered, raw sewage was being discharged to the drainage canal. Very few maintenance personnel are employed.

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The system needs upgrading since it has received little improvement since 1938. One of the pumping stations is too high in elevation to properly drain the tributary service area; also, excessive sedimentation is taking place, causing unacceptable operations.

At present the existing plant is handling about 25000 M3 per day. Only about 5000 M3 is passing through the filters. The remainder has only larger solids removed through sedimentation, and the effluent to the drainage canal is almost raw sewage. The drainage canal flows through the north portion of the Fayoum and empties into Karoon Lake. This lake has no outlet. Maintenance of the existing plant appears to be minimal, perhaps due to dependence on the completion of the new plant envisioned.

No comprehensive studies were undertaken in the cities of Fayoum and Minia, but observations by Mission engineering personnel lead to the same conclusions as those given above for Beni Suef. Again, the general consultant will need to define not only O&M procedures, but will need to undertake the upgrading of the existing plants to modernize them to adequately treat the volume of sewage for which the plant was originally designed. The work required for the upgrading effort is no easy feat, but once accomplished, adequate maintenance can be accomplished to reduce costs and lengthen the systems life.

c) Continuing Maintenance and Operations

A question that has surfaced rather often during the design of the Provincial Cities Development project is what happens after completion of the efforts of the GOE and AID with regard to continuing maintenance needs and operational requirements. As noted repeatedly in the body of the Project Paper, the general consultant will prepare plans and specifications for the upgrading of old facilities and for construction of new facilities. Training of staff to manage the infrastructure will take all forms, e.g., not only for O & M procedures, but for budgeting in a realistic way for the necessary funds to achieve the proper level of O & M. Up to now, the requests for funds bear no relationship to the amounts received nor earmarked for various O & M requirements. An assumption in this paper is that over the five year life of project, the general consultant, working in concert with the Egyptian A/E firms, will have built a history of adequate procedures to properly finance, maintain and operate the facilities in the most efficient manner and that the history of the management will be carried on in a straightforward projection for on-going, continuing O & M in the future.

Annual Capital Planning and Budgeting Process

THE BUDGET OF EXPENDITURES

1. An Explanation of "BAB's"

At the outset of this discussion it is appropriate to indicate that budgeting for expenditures for local government is carried out through the use of four "categories" of expense, each which is locally known as a "BAB". The following helps to identify these elements:

BAB-1 Personnel Costs. It includes all payments for base wages as well as increments available as incentive pay (which can run to as much as 100 percent of base pay for some employees). It also includes costs of pensions and other fringe benefits of the workers and seemingly includes limited amounts of travel costs for attendance at professional or other official meetings.

The number of positions in each job category for each unit of government (governorate, down to the last position in each city, markaz, and village council) is controlled through the Ministry of Manpower. No person may be employed except to fill a specifically authorized position.

Given the national policy of providing employment for all graduates of secondary, technical, and university level institutions of learning and the inability to determine the numbers to be available and their allocation it is customary for new assignees to be paid from central government appropriations during the remainders of the fiscal year in which they are employed. As of July 1 of the succeeding fiscal year, their positions are added to the approved list for the government which they are assigned and adjustments are made in the budget for this category.

BAB-2 Non-Personnel Costs. This portion of the budget is used to pay the non-personnel service elements of the operating costs of the government. These include materials and supplies, contractual services of almost all types for current service and seem also to include some elements of contractual service for repair of streets and other facilities.

It does not include provision for renewal of equipment. In fact the renewal of the inventory of equipment is not actually recognized at any point in the process. Rather, replacement equipment is charged as a capital expense and is included in BAB-3.

BAB-3 Capital Outlays. This category of expense comprehends capital outlays of all types except those financed through BAB-4 (primarily loans and grants) and very small amounts financed from the special accounts of the governorates and subsidiary local government units.

BAB-4 Loans. When the local government is able to develop loans either directly from the central bank, the funds are source under guarantee from the central bank, the funds are handled through BAB-4.

2. The budgeting and Expenditure Process

The initial budget estimates for the 3 BAB's are prepared by different groups in the city administration:

BAB 1 Is prepared by the personnel Dept;

BAB 2 Is prepared by the Heads of the various service departments (such as water and sanitation);

BAB 3 Is prepared by the Planning Dept. with the assistance of city engineers and technicians (for small investment projects or routing improvements) or Cairo based Ministry engineers (for larger and non-routine projects).

At no time during the preparation of initial budget estimates does the Ministry of Finance (MDF) provide any guidance concerning the likely availability of funds for the three budgets.

After the initial estimates are prepared the Mayor reviews the budgets with his Executive Council. Once they agree on the estimates the Mayor signs them and presents them to the City Popular Council for approval. The Council is not empowered to alter the BAB 1 or BAB 2 estimates, but they can adjust the BAB 3 budget.

Once the City Council approves the estimates they are forwarded to the Governorate. The Governor's Director of Finance combines all the budgets from all jurisdictions and the various Governorate Directorates. Then the Governor repeats the process performed by the Mayor and submits the estimates to the Governorate Popular Council. Again, only the BAB 3 estimate is subject to change, but even such change is most unlikely.

The Governorate's approved estimates for BAB 1 and BAB 2 are sent to the Ministry of Finance in Cairo. MDF then schedules a hearing on the estimates which is attended by MDF representatives, the Governorates Executive Council, the Secretary General of the Governorate (representing the various cities and districts, etc.), the Governorate Finance Director and the Governorate Controller. At this meeting a "semi-final" decision is made on BAB 1 and BAB 2 budget levels (final decision authority rests with the National People Council). The budget levels for BAB 1 (relatively inflexible) and BAB 2 are established on the basis of Min. Fin's estimates of total CDE resources available and it is not related to estimates of revenue collection by the Governorate (such estimates do not even enter in the discussion).

The Governorate's BAB 3 estimate is sent to the Regional representative of the Ministry of Planning. He discusses the BAB 3 estimate with Governorate planning staff and then attempts to "coordinate" the BAB 3 estimates for all governorates in the Region. Once this is done he submits the combined Regional BAB 3 (a list of projects and related cost estimates) to Ministry of Planning in Cairo. In Cairo, MDP trims the BAB 3 estimate to fit the total national investment funds available and submits the combined national BAB 3 to the People's Council. (Substantial debate and politicking occurs as local representatives try to maximize the projects initiated in their constituencies).

When the BAB 1 and BAB 2 budgets are approved in final form they are inevitably lower than the estimates submitted (promotion deferred, Q&A budgets cut). If the Governorate's total HQ estimate is reduced 30% (for example) then each of the sub-unit budgets is also reduced 30%. However, there is some flexibility since the Governorate Finance Dept. can reallocate funds between the various jurisdictions with approval of the Governor and Governorate Popular Council. This is not an uncommon practice.

The BAB 3 budget is a project list, hence it is final. Those jurisdictions with approved projects are the winners. Those jurisdictions without projects are the losers.

The funds for BAB-1 and BAB 2 HQ budgets are deposited in the Central Bank (CBE) under the name of the Governorate. These funds must be spent in the year for which they are approved or they revert to Min. Fin. at year end. The BAB-3 funds are now deposited with the National Investment Bank (NIB) under the name of the Governorate and along with a list of approved projects totalling the funds deposited. These funds can now be carried forward into following fiscal years without reverting to MDF.

Expenditure of RAB 1 funds is quite straight forward. The City Personnel Dept. prepares the payment vouchers and the City Finance Dept checks if they are according to approve limits. Funds are then drawn from the local branch of the CBE for use as payments.

Expenditure of RAB 2 funds is more complex. A service Dept. head (say Water Dept.) must submit a memo to the City Finance Dept. stating the purpose of the expenditure and estimated amount. The City Fin. Dept checks th request against the line item budgets in the approved RAB 2. If sufficient unencumbered funds exist in the line item budget, then the expenditure is approved and the line item budget is encumbered with the estimated amount. At the same time the City Contracts Dept. requests offers from suppliers. When the purchase is approved by the Fin. Dept. the Contract Dept. awards a purchase order to the bidder selected according to bidding criteria. When the supplier delivers the item it is checked by the service dept. and the invoice is approved by them. The approved invoice then goes to the City Fin. Dept. who checks the RAB 2 budget to ensure the invoice is within the encumbrance amount. The encumbrance is converted to a commitment and a check against the local CBE is prepared and registered in the expenditure register. All payments are by check for RAB 2 expenditures.

Expenditures for RAB 3 are essentially similar to AID procedures. Contracts to perform project work are awarded by competitive bid. Once contracts are awarded a contract account is opened in a local bank. Work orders are issued by the city engineers. Progress payments are made according to physical progress approved by the city engineers. The City Fin. Dept. checks all approved invoices against the contract and prepares checks as outline for RAB 2 above. The funds are payment of RAB 3 contracts are deposited annually by the NIB in a local bank based on the City's estimate of funds required. If more progress is made than anticipated (and hence more expenditures) further tranches can be drawn from the NIB as needed.

3. The Revenue Collection Process

The City of Menia collects all of the fees and taxes permitted under Law 43 Article 51 (see PIS report). This includes "taxes or betterment levies on real-estate which benefitted from area improvement due to development projects and activities." However, such "betterment levies" are only collected when the owner of a "benefitted" property sells his property or builds on that property.

All revenues are collected by the Revenue Division of the City Finance Department.

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Regarding water revenues (there are not sewer revenues), the finance officers do not know what percentage of water produced by the city passes through water meters. They have no idea what percentage of meters were working. The procedure for collecting water revenues is as follows:

- 1) A meter-reader (who works for the Revenue Division) reads the meters and reports actual usage recorded;
- 2) Each month the Revenue Division prepares a water bill for each metered customer based on either a meter reading or an estimated usage (from historic data);
- 3) Each month every metered customer is expected to come to the Revenue Division, ask for his bill, and pay it;
- 4) If a customer misses one month's payment, he is supposed to be sent a warning notice, he has six months to clear arrears;
- 5) If six months passes and the amount in arrears has not been paid, the customer is supposed to be disconnected.

The finance officer's estimate that about 80% of their customers pay their water bills promptly, as required. About 20% are believed to be behind in their payments, but few (if any) of these exceed the six month notice period for disconnection. Although a register of billings and payments is maintained by the Revenue Division, no periodic information reported are prepared concerning payment arrears or arrears aging.

All revenues collected by the Revenue Division are recorded by them and the money is deposited to the account of the Ministry of Finance (Cairo) in the local branch of the CNE. An info copy of all revenue deposits by the City is sent to the Governorate Finance Dept. The Revenue Division is audited at random periods by inspector/auditors from MOF who are based in the Governorate. The heads of both the City and Governorate Finance Departments are seconded from the MOF in Cairo.

The Law 43 Special Account

Both the city and the Governorate operate Special Accounts as provided for under Law 43. These Special Accounts are currently used to finance local development projects which are supposed to be financially self-sufficient: e.g. a cattle raising project, an ice making plant, a Nile ferry, a local mini-bus service, etc.

A separate account is maintained for each project and standard reports (balance sheet, income statement, and funds flow) are said to be prepared for each project and for the consolidated Special Account as a whole. A separate staff under the direction of the city or Governorate Finance Director is responsible solely for these accounts. The money in these accounts is kept in local banks and is not subject to reversion to the MDF in Cairo.

The source of funds for these accounts is:

- 1) Locally imposed (via Popular Council) surcharges on various centrally decreed taxes and fees; e.g. a surcharge on water bills, a surcharge on movie tickets, etc. (of the surcharges collected by the city, 25% is sent to the Governorate Special Account and 75% is retained by the City's Special Account);
- 2) Loans from local banks
- 3) The retained earnings of the various Special Account projects and services.

The funds in the City's Special Account are under the control of the control of the Mayor, but each project has its own manager who initiates requests for expenditures. Such expenditures are said to be subject to the same accounting and control processes associated with other local expenditures.

The City's Special Account can be audited at any time by Governorate or MDF inspectors. MDF audit staff located in the Governorate were said to prepare a complete audit of the Special Accounts at the end of each accounting year.

The finance officers all agree (strongly) that Special Account funds should be used primarily for "profit making" investments and not for "service" projects such as water distribution which earn no profit. They agree that if there "extra" funds in the Special Account were available they could be used for "service" project. The chief objection toward using Special Account funds to finance water projects were:

- 1) These projects should be provided through PAR 3; and
- 2) The extra revenue generated by extending metered water would go to the CDF and not back into the Special Account.

5. The Governorate and City Accounting Operations

The Finance Departments of both the City and the Governorate have accounting operations that appear quite adequate for the control of budget, expenditures, and revenue collection. Both the departments have sufficient staff (though the degree of over-staffing and the level of staff ability is not known).

The departments are oriented towards book-keeping and expenditure control. There was no evidence of the departments preparing any meaningful form of financial management information. Nevertheless, within their "terms of reference" the departments forms and procedures (which are uniform for all of Egypt) appear to be sound and properly adhered to. These are well organized and properly managed departments which are quite adequate for handling funds under the proposed project.

The Annual Capital Planning Process

Early in the calendar year governors (all of whom are members of the Council of Ministries) advise all the local units in the governorates about general policy and national priorities and provide them with a broad outline of the National Investment Budget as recommended by the Council of Ministries that will be submitted to the Parliament for consideration, amendment, and adoption.

Given the total National Investment Budget, the Minister of Planning will prepare a general breakdown of this budget. After discussion with other Ministries he proposes how much should be allocated to each ministry and to the headquarters of the governorates--subject to the approval of the Council of Ministries. In turn, each minister, with the assistance of the Minister of Planning will tentatively distribute a portion of his budget for investment (RAB-3) to the governorates. This tentative distribution is discussed at length with the Council of Governors. The budget for RAB-3 headquarter expenditures will also be divided between the governorates taking into consideration some of the high priority programs 8.

In March/April of each year, the governors know approximately how much each is likely to receive in RAB-3 funds for headquarters functions; the ministers have a rather general idea of their budget and how much will be allocated to each of the governorates and they reportedly advise their local directors of those amounts which can be used as guidelines in the preparation of budget proposals.

While this is happening in Cairo, each of the local units of each governorate is trying to put together its proposed investment budget. For each local unit (such as a city) this is the responsibility of the planning officer for the headquarters functions and of the local representatives of the various Cairo ministries (who usually work with and report to a Director of that function at the governorate level). They prepare the list of proposed expenditures for their respective sectors. At the city, markaz and village-council level, capital budget preparation is usually initiated by the elected council and coordinated by the administrative officers mentioned above so that all the needs for projects as perceived and expressed by the people can be properly recorded in the BAB-3 "plan". Although some priorities may be expressed, no attempt is made at making accurate costing of the requests because of a lack of available expertise at that level of government and also because this is perceived by the elected council as a would-be interference in the administrative branch of the government. In other words, this process of listing all the proposed investments is a prerogative of the elected councils at the local level and they seem really neither willing nor interested in getting too deeply involved in a real budgeting exercise.

As the president of the elected council in one city said:

"As long as we have no power to levy taxes as we see fit, as long as we have no hierarchy to help us become better informed, as long as we have a 100 percent grant financed budget, why should we try to do serious budgeting? We simply ask for anything we need, as much as we can think of and wait, without too many illusions, for Cairo to provide it. When Cairo decides we are ready and mature, then we will be ready to show them. Meanwhile we will state our needs and do no more. Right now we are giving Cairo the benefit of the doubt that they are doing their best to solve enormous national problems. But if we ever discover that we are being dealt with in an unfair way, then we will do something about it."

In any event, the request for capital expenditures of the city are compiled by the city executive council and sent to the governorate. These are assembled by the chief planning officer who presents them to the executive council. Since the council includes all the directors who have received their guidelines from Cairo, it would be possible to make adjustments at this level to make it conform more closely with the amounts that are likely to be approved in Cairo. However, such changes in the proposed budget are subject to acceptance by the elected council of the governorate. It often insists that the "needs of the people" should go all the way to Cairo and be at least seen there, even though the likelihood of acceptance is remote.

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It appears, from examination of the records made available that although BAB 3 headquarters "approved" budgets reach the governorate on time for the beginning of the fiscal year, the other expenditures of BAB 3 (i.e., those budgeted through the ministries in Cairo) are not made available until sometime after the beginning of the fiscal year. These appear in the records after the beginning of the year as elements of the "adjusted approved" amounts.

In the final accounting for the year, the governorate shows for BAB 3 the original appropriations consisting solely of the headquarters portion. The "amended" appropriations show the adjusted headquarters amounts as well as the amounts eventually allocated from the ministries in Cairo. (No trace is available as to the times at which such ministerial appropriations are provided to the governorate and the extent of adjustments therein during the fiscal year, if any:)

In summary, it seems that the annual capital planning process is marked by major irrationalities:

The entire process of project initiation is based upon the perceived needs as stated by the village-councils, the municipalities, the markaz, and the governorate itself. It is complicated by the fact that essentially it is a compilation of requests from these various sources, including the directorates within the governorate, without any meaningful, strong, and effective coordinated planning. The general attitude seems to prevail to the effect that this is an opportunity to participate in an essential political process of assuring everyone that his requests have been properly transmitted to the central government. None is willing to assume responsibility for attempting to bring the list of requests into any basic integrated whole or to provide a comprehensive plan within each markaz and governorate.

- B. It is carried out without the advantage of long-term comprehensive operating programs and program objectives and also without the benefit of comprehensive physical development plans for the urban area. (Recognition of the need for such plans has been forthcoming from two sources: the General Organization for Physical Planning (GOP), which is preparing comprehensive physical development plans for Menia and Beni Suef and, the Governor of Fayoum who sponsored a 20-years development plan for the city of Fayoum.)

- C. Except for the relatively small "headquarters" element of the capital plan, there is little evidence of useful interface at the local or national levels between the various projects being pursued.
- D. The entire process is accomplished without it being fitted into any framework of fiscal discipline, i.e., within any definition of funds likely to be available. It is also done without the benefit of effective pricing techniques for many items, especially the more complex projects.

The examination of the budget by the executive council of the governorate should be the point at which the proposed budget could be made into one integrated planning document for the entire governorate. This could also be made in the light of allocations under the 5-years plan and within budgetary guidelines of the central government. It would optimize the response to the priority needs of the governorate. At the same time, governorates and local units should retain the right to set forth needs that cannot be accommodated within either the five year planned amounts or current fiscal guidelines. Only by such method can such needs be presented to policy-making levels. The reasons why it seems difficult to achieve this result do not include any inability of the local people to manage their own affairs. Training, appropriate staffing, and the existence of a management information system at the local level would enable elected officials to perform a very credible planning and budgeting function. However, the powerful grip that is held over the processes of budgeting by the Cairo bureaucracy would probably not permit this, except under strong ministerial pressures.

7. Approved Capital Budget

The approved capital budget items for the governorate can be divided into four general categories.

- a. The governorate receives a lump-sum amount for its headquarters capital expenditures with some guidelines as to how it should be distributed among various functions.
- b. The central ministries with directorates at the governorate level receive gross amounts for capital expenditures for their respective functions and make allocations there from to the directorates within the governorates.

- c. The other ministries and independent agencies receive gross amounts for capital expenditures for their functions and subsequently make determinations of the amounts to be used for projects to be carried out in the respective governorates.
- d. The governorates are provided with some funds for various economic investments. (In Exhibit A-1 the amounts are shown in the final category of presentation).

For the headquarters, the allocation to the governorate by function (or project categories) is distributed among markaz and local units by the governor and his executive and elected councils. For the directorates in each governorate, allocations are generally made by the ministries, in lump-sum amounts, with distributions being worked out largely by the directorates subject to approval by the Executive Council and the Elected Council. For the economic investment projects, the allocations to each governorate are on a project (line item) basis; they cannot be used for other than the specified projects. For the independent agencies and the governorate are determined by them, frequently after consultation with the governor.

8. Conclusions

Many of these deficiencies in planning arise from the absence of management information systems at the local level, so essential to the proper planning and administration of the functions of local government that are dependent upon physical infrastructure. Most of the complex elements of design are assigned to the central ministries or specialized agencies in Cairo. Operating officials are frequently amazingly able to keep the system in good operating condition; however, their expertise is likely to be more mechanical than in the planning evaluation aspects of administration. Even so, this expertise seems to be little utilized in the planning and design process.

With a good management information system, the local jurisdiction would be able to develop a long-term comprehensive operating plan and program for the performance of the required services as well as a long-term physical development program under which the community would expect to build and/or complete the needed infrastructure. The QXP is attempting to develop comprehensive physical development plans for Menia and Beni Suef. In Fayoum a comprehensive plan is being developed under contract with the University of Cairo. These are useful services; however, there work out the means of execution of the proposed comprehensive physical development plan or to make adjustments in the schedules for execution due to unforeseen developments.

Until and unless a new approach to planning is achieved at the local level and the planning officers are appropriately qualified for the tasks implicit in their job titles, it is likely that both the five-year planning and the annual planning processes will be little more than unproductive paper exercises, of limited utility at decision-making levels in Cairo.

A more fundamental problem arises in connection with the duality of the process of planning at the governorate and local unit levels. With the officials responsible for delivery of most local services having heavy responsibilities to their counterparts in the Cairo ministries, the ability of any local planning process to coordinate these largely independent operations is limited. It happens only when the governor is very powerful politically and is able by the force of his personality and political position to enforce coordination. Within the present framework, there is insufficient reward for him to risk the full use of his authority upon this course.

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Waiver of Fixed Amount Reimbursement (F.A.R.) Financing Limitations

The Project contemplates a significant amount of commodity procurement from local stocks to be made by the GOE - participating entities with Egyptian pounds purchased with Project furnished dollars. These purchases will be made in accordance with AID policy set forth in A.I.D. Handbook 1, Supp B, Ch. 20 "Fixed Amount Reimbursement".

In order to make effective use of this F.A.R. feature of this project it will be necessary to waive at the outset on a blanket basis one restriction pertaining to the purchase of imported shelf items of AID Code 935 origin otherwise permitted under AID H.B.1, Supp B, Ch. 18.

Ch 20 requires that source waivers be obtained when the estimated value of Code 935 origin commodities procured to carry out the FAR component of the activity exceeds 25% of the estimated total cost of the commodities element of the FAR activity. It is expected that the total costs of such Code 935 commodities to be procured locally will exceed 25% of the total commodities required for the F.A.R. element of the Project. Ch 5 establishes criteria upon which a source waiver may be granted. Although Ch 20 is not clear on this point, it is probable that A.I.D. in order to exceed the 25% FAR limitation should execute a source waiver in the same manner that it does in order to exceed the similar 10% limitation under AID H.B. 1, Supp B, Ch 20 for Local Cost financing. For the reasons explained below, a source waiver appears justifiable as recognition of a circumstance critical to the success of Project objectives, one criterion (Ch 5B 4b7) established by AID as justification for a source waiver.

The supporting rationale for this blanket waiver centers about the major emphasis on decentralized local procurement of services and commodities. The nature of the project purpose which seeks to promote decentralized management and implementation of many sub-activities makes it necessary to pass on a wide range of procurement actions to the participating cities. The project will encourage the GOE to allow the cities to make their own decisions regarding the final definition of projects they undertake and, within the confines of sound technical, economic, and financial viability, permit implementation including procurement, free from the constraints of the central government. For AID to pass on to the GOE a set of local cost limitations would not be consistent with the scope or the spirit of this project. Moreover, there is a practical reason to waive the limitation for local cost financing. Egypt has had little commercial contact with the United States over the last 25 years, thus Egypt has not been a traditional trading partner of

the United States, and US origin material of the type which would be purchased locally, off the shelf, under this Project is not generally available here. We expect that a majority of the goods and services procured will have Egyptian source and origin but a significant number of transactions would undoubtedly involve goods having their origin, but not source in AID Code 935 countries, as Western Europe and Japan both constitute major suppliers of goods to Egypt. Thus, given the decentralized nature of emphasis of project procurement, and the types of commodity procurement contemplated the 25% total amount limitation for FAR commodities must be waived if the project is to proceed in effective fashion. If this is not done, the Mission will be faced with a requirement of making literally hundreds of special transaction by transaction waivers. Waiving in blanket fashion the enumerated limitation will enable the Project procurement to proceed expeditiously and greatly support the decentralization emphasis of the Project.

Recommendation:

We recommend at the outset of this project that recognition be given to the complex and extensive decentralized procurement requirements of this activity and that a waiver be granted to Chapter 20 of A.I.D. Handbook 1, Supp B which will permit procurement in Egypt of commodities of Code 935 origin without regard to the 25% limitation.

The waiver and necessary certification have been included in the authorization for the Project.

PROCUREMENT SOURCE WAIVER

DRAFTED: NE/TECH/SARD, John V. D. Lewis

INITIALED: _____

JDL

WAIVER CONTROL NO. : NE-81-039

PROBLEM: Request for Procurement source/origin waiver from Geographic Code 000 (U.S. only) to Geographic Code 899 (Free World).

- (a) Cooperating Country: Egypt
- (b) Authorizing Document: 263-0127
- (c) Project: Provincial Cities Development
- (d) Nature of Funding: Grant
- (e) Description of Goods: General/miscellaneous construction materials and equipment
- (f) Approximate Value: \$10,000,000
- (g) Probable Source/Origin: Egypt/Free World (Geographic Code 899)
- (h) Source Waivers Granted for Procurement of Imported Shelf Items

DISCUSSION: The Project contemplates a significant amount of commodity procurement from local stocks to be made by the GOE - participating entities with Egyptian pounds purchased with Project furnished dollars. These purchases will be made in accordance with AID policy set forth in A.I.D. Handbook 1, Supp B, Ch. 20 "Fixed Amount Reimbursement".

In order to make effective use of this F.A.R. feature of this project it will be necessary to waive at the outset on a blanket basis one restriction pertaining to the purchase of imported shelf items of AID Code 935 origin otherwise permitted under AID H.B.1, Supp B, Ch. 18.

Ch 20 requires that source waivers be obtained when the estimated value of Code 935 origin commodities procured to carry out the FAR component of the activity exceeds 25% of the estimated total cost of the commodities element of the FAR activity. It is expected that the total costs of such Code 935 commodities to be procured locally will exceed 25% of the total commodities required for the F.A.R. element of the Project. Ch 5 establishes criteria upon which a source waiver may be granted. Although Ch 20 is not clear on this point, it is probable that A.I.D. in order to exceed the 25% FAR limitation should execute a source

waiver in the same manner that it does in order to exceed the similar 10% limitation under AID H.B. 1, Supp B, Ch 20 for Local Cost financing. For the reasons explained below, a source waiver appears justifiable as recognition of a circumstance critical to the success of Project objectives, one criterion (Ch 5B 4b7) established by AID as justification for a source waiver.

The supporting rationale for this blanket waiver centers about the major emphasis on decentralized local procurement of services and commodities. The nature of the project purpose which seeks to promote decentralized management and implementation of many sub-activities makes it necessary to pass on a wide range of procurement actions to the participating cities. The project will encourage the GOE to allow the cities to make their own decisions regarding the final definition of projects they undertake and, within the confines of sound technical, economic, and financial viability, permit implementation including procurement, free from the constraints of the central government. For AID to pass on to the GOE a set of local cost limitations would not be consistent with the scope or the spirit of this project. Moreover, there is a practical reason to waive the limitation for local cost financing. Egypt has had little commercial contact with the United States over the last 25 years, thus Egypt has not been a traditional trading partner of the United States, and US origin material of the type which would be purchased locally, off the shelf, under this Project is not generally available here. We expect that a majority of the goods and services procured will have Egyptian source and origin but a significant number of transactions would undoubtedly involve goods having their origin, but not source in AID Code 935 countries, as Western Europe and Japan both constitute major suppliers of goods to Egypt. Thus, given the decentralized nature of emphasis of project procurement, and the types of commodity procurement contemplated the 25% total amount limitation for FAR commodities must be waived if the project is to proceed in effective fashion. If this is not done, the Mission will be faced with a requirement of making literally hundreds of special transaction by transaction waivers. Waiving in blanket fashion the enumerated limitation will enable the Project procurement to proceed expeditiously and greatly support the decentralization emphasis of the Project.

We recommend at the outset of this project that recognition be given to the complex and extensive decentralized procurement requirements of this activity and that a waiver be granted to Chapter 20 of A.I.D. Handbook 1, Supp B which will permit procurement in Egypt of commodities of Code 935 origin without regard to the 25% limitation.

The waiver and necessary certification have been included in the authorization for the Project.

PRIMARY JUSTIFICATION: Miscellaneous off-shelf imported materials and equipment which have their origin in AID Geographic Code 899 countries are essential to the locally executed subprojects in this AID-financed decentralization project using local cost financing. Because of this, a source waiver is justified per Handbook 15, Chapter 2B6a(1)(g).

CERTIFICATION: Exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

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AUTHORITY: Authority to waive the provisions as requested herein is contained in IDCA Delegation of Authority No. 1. This waiver request is in accordance with policies and procedures cited in Handbook 1, Supplement B, Chapters 5B4d and 18A4b.

Clearances:

GC/NE:T. Carter

[Signature]

Date:

8/26/71

SER/COM/NE:R. Looper

[Signature]

Date:

26 Aug 71

RECOMMENDATION TO AUTHORIZE PURCHASE OF LOCAL CURRENCY WITH DOLLAR

Over the life of the Project, \$75,000,000 will be used to support F.A.R. construction activities for the three Provincial Cities and local currency expenditures for specific items in support of this project. It is envisioned that local cost financing will be made available to the governorates/cities through the Ministry of Planning for project implementation for disbursement in accordance with the agreements reached between USAID and GOE in the Project Agreement and subsequent letters of implementation.

One reason for authorizing local cost financing is that this represents an additional real resource to the Egyptian economy and provides an incentive for the Egyptian Government to implement new initiatives that otherwise it might not be able to undertake. The use of existing U.S. owned local currency to fund local costs of construction and related commodities would add no additional real resources to the economy. Given the GOE's need to restrict the growth in the money supply to correspond to the growth in real resources in the economy, the inflationary impact of using U.S. - owned local currency would have to be offset by reduced GOE disbursements of other programs.

Consequently, if U.S. owned local currency were used for all the Egyptian pound costs associated with this project, it is doubtful that the GOE could enter into this agreement, since they would have to sustain budgetary cutbacks in other areas. Given the above considerations and the fact that the Provincial Cities Development Project is consistent with the Congressional mandate of the Foreign Assistance Act to undertake activities designed to improve the economic position and quality of life of the poor majority and will have an important impact in the Provincial Cities of Menia, Beni Suef, and Fayoum, we have concluded that local cost financing should be authorized.

The Mission has considered the use of U.S. owned Egyptian Pounds to finance these local currency costs. However, because of the high level of activity in Egypt over the past three years all U.S. owned local currency has been programmed and there is none available for this Project. The allocation plan which was submitted by the U.S. Embassy, did not include this Project. Furthermore, if U.S. owned Egyptian Pounds were made available to this Project, there would be an inevitable inflationary impact on the Egyptian economy which would probably provoke a corresponding reduction in further A.R.E. disbursement against other priority activities. Accordingly, to carry out the Project it will be necessary to purchase Egyptian Pounds with AID Dollars.

Based on the foregoing, USAID requests that it be determined that local cost financing with dollar appropriations be authorized in accordance with Section 612 (b) of the Foreign Assistance Act. The authorization contains the necessary determination.

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ANNEX I
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SUBJECT: MID-EGYPT PROVINCIAL CITIES (263-2127) PID:
NEAC REPORTING CABLE

1. MEETING ON MARCH 13, 1981, THE NEAC APPROVED SUBJ. PROJ. PID AND AUTHORIZES USAID TO PROCEED WITH PP DESIGN OF THE MID-EGYPT PROVINCIAL CITIES PROJECT.

2. IT WAS THE CONSENSUS OF THE NEAC THAT THE SUBJECT COULD NOT HOPE TO ACHIEVE ITS PURPOSE, A MEANINGFUL DECENTRALIZATION OF AUTHORITY, UNLESS BOTH USER RATES AND RESULTING REVENUES WERE PROGRESSIVELY TURNED OVER FROM CENTRAL TO GOVERNORATE, AND FINALLY TO MUNICIPAL CONTROL. WITH THIS CONCERN, RELATIVE TO THE FIRST PHASE OF PROPOSED SUBPROJECTS, THE NEAC ASKED: TO WHAT EXTENT AND WHEN WOULD THE CITIES OBTAIN THE AUTHORITY TO SET WATER/SEWER CHARGES (AND OTHER RATES) AND RETAIN THE RESULTING REVENUES? THUS, THE NEAC SUGGESTS THAT THE MISSION (A) MEET WITH RELEVANT GOVERNORATE AND CENTRAL OFFICIALS TO CLARIFY THE CURRENT SYSTEM OF RATE SETTING AND REVENUE FLOWS; (B) CONSIDER LINKING THE LEVEL OF INVESTMENT IN EACH CITY TO THE DEGREE OF MUNICIPAL REVENUE GENERATION AND RETENTION THAT EACH GOVERNORATE AND CITY CAN NEGOTIATE WITH THE CENTRAL AUTHORITIES; AND (C) CONSIDER LINKING THE

PHASING AND SPEED OF DISBURSEMENTS TO THE ACCOMPLISHMENT OF PRE-DEFINED STEPS IN THE TRANSFER OF FISCAL RESPONSIBILITY TO MUNICIPAL AUTHORITIES. THE NEAC IS AWARE THAT GOALS FOR PROGRESSIVE TRANSFER OF FISCAL AUTHORITY MUST BE REALISTIC IN THE EGYPTIAN CONTEXT AND THE PP SHOULD DEVOTE SIGNIFICANT ATTENTION TO DEFINING AND JUSTIFYING WHAT CAN REALISTICALLY BE ACHIEVED.

3. THE NEAC ALSO EXPRESSED CONCERN ABOUT THE CURRENT CAPACITY OF THE MUNICIPAL AUTHORITIES TO BOTH UNDERTAKE CAPITAL INVESTMENT PROJECTS AND MANAGE/MAINTAIN THE RESULTING FACILITIES. THE PID GAVE LITTLE DETAIL CONCERNING THESE MUNICIPAL CAPABILITIES OR HOW EXISTING CENTRAL MINISTRY STAFF ARE TO BE UTILIZED IN THE CONTEXT OF DECENTRALIZED INVESTMENT/OPERATIONS RESPONSIBILITY. THE NEAC THEREFORE REQUESTS THAT THE PP PROVIDE: (A) AN INVENTORY OF LOCAL CAPACITY FOR EACH CITY IN THE FIELDS OF TECHNICAL PLANNING, CONTRACTING, FINANCIAL MANAGEMENT,

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AND FACILITY MANAGEMENT; (B) DETAILED JUSTIFICATIONS FOR THE SPECIFIC TYPES OF SKILLS TO BE DEVELOPED AT THE LOCAL LEVEL THROUGH PROJECT FUNDED TA AND TRAINING; (C) A REVIEW OF ADMINISTRATIVE OPTIONS FOR GAINING CENTRAL AUTHORITY SUPPORT FOR PROJECT EFFORTS (INCLUDING WRITTEN COMMITMENTS IF POSSIBLE); (D) A SCOPE OF WORK FOR THE OVERALL/GENERAL TA TO BE FUNDED BY THIS PROJECT WITH AN ASSESSMENT OF THE SUITABILITY OF USING AN A/E CONSULTANT FOR THESE SERVICES (FYI: THE NEAC WAS SKEPTICAL THAT AN ENGINEERING FIRM ALONE WOULD BE THE BEST SOURCE FOR TA IN SUCH KEY AREAS AS FINANCIAL MANAGEMENT, PERSONNEL MANAGEMENT, ORGANIZATIONAL DEVELOPMENT, ETC.. A REVIEW OF THE BOYLE-A. YOUNG TA CONTRACT FUNDED UNDER 263-0102 COULD BE USEFUL HERE); (E) AN ANNUAL EVALUATION PLAN DESIGNED TO MEASURE CHANGES IN MUNICIPAL MANAGEMENT AND TECHNICAL CAPABILITY AS A MEANS TO DIRECTING SUB-PROJECT FUNDS ONLY TO CITIES MAKING SUFFICIENT PROGRESS IN CAPACITY BUILDING.

4. THE NEAC NOTED THAT THE PID CONTAINED SOME INCONSISTENCIES REGARDING THE RELATION OF SYSTEMS MASTER PLANNING AND CONSTRUCTION DISBURSEMENTS. NEAC SUGGESTS, THE PHASING OF IMPLEMENTATION TAKE MAXIMUM ADVANTAGE OF EXISTING PLANS ALREADY "ON THE SHELF" AND IMPLEMENT THOSE THAT ARE SUFFICIENTLY DEVELOPED TO PERMIT REASONABLE COST ESTIMATES AND TECHNICAL ASSESSMENTS. PP IMPLEMENTATION PLANS SHOULD BE DESIGNED AROUND CAREFUL ASSESSMENTS OF LOCAL MANAGEMENT/TECHNICAL CAPACITY (SEE 3 ABOVE) AND PROGRESS IN DECENTRALIZING FISCAL RESPONSIBILITIES (SEE 2 ABOVE). MASTER PLANS SHOULD BE DEVELOPED IN TANDEM WITH INITIAL, LIMITED SUB-PROJECT IMPLEMENTATION AND SHOULD BE USED TO CONTROL SUBSEQUENT SUB-PROJECT IMPLEMENTATION.

5. THE NEAC FELT THAT THE PP SHOULD DEVOTE SIGNIFICANT ATTENTION TO BENEFICIARY ANALYSIS. IN PARTICULAR, ATTENTION SHOULD BE PAID TO ASSURING THAT THE INFRASTRUCTURE SUB-PROJECTS PROVIDE MAXIMUM BENEFITS TO THE URBAN POOR IN EACH CITY. THE PP SHOULD EXAMINE THE SOCIAL IMPACT OF BOTH DECENTRALIZATION AND THE INDIVIDUAL INFRASTRUCTURE SUB-PROJECTS.

6. WHILE THE NEAC AGREED WITH MISSION RATIONALE FOR DIRECT CONTRACTING IT IS SUGGESTED THAT THE PP ASSESS THE MISSION STAFFING IMPLICATIONS OF AN AID-DIRECT TA/A AND E CONTRACT. MISSION MAY WISE TO CONSIDER ALTERNATIVE FORMS OF HOST COUNTRY CONTRACTING CONSISTANT WITH THE PROJECT'S DECENTRALIZATION GOALS. IN THE EVENT THAT THE PP RECOMMENDS AID-DIRECT CONTRACTING, THEN IT SHOULD ALSO INDICATE HOW MISSION STAFF WILL BE ALLOCATED TO MANAGE THE CONTRACT. SIMILARLY, THE PP SHOULD SPELL OUT

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THE STAFFING IMPLICATIONS OF THE SUB-PROJECT A AND B CONTRACTING AND WHETHER THIS WILL BE ARRANGED THROUGH WORK ORDERS ON THE GENERAL TA CONTRACT OR INDIVIDUAL HOST COUNTRY CONTRACTS. THE NEAC WAS CONCERNED THAT MISSION ENGINEERS ARE ALREADY HEAVILY COMMITTED AND CONTRACTING FOR THIS PROJECT SHOULD BE ARRANGED TO MINIMIZE ADDED DEMAND FOR THIS SCARCE RESOURCE.

ANNEX R
Page 3 of 3

7. THE NEAC SUGGESTS THAT THE ENTIRE DOLS 50 MISSION LOP FUNDING BE CONSIDERED FOR OBLIGATION IN FY 81. THE NEAC FELT THAT THE MISSION SHOULD ENSURE PROPER USE OF THE FUNDS BY THE MUNICIPALITIES THROUGH APPROPRIATE CONTROLS SUCH AS CP'S TO SEQUENTIAL DISBURSEMENTS, ANNUAL MANAGEMENT/TECHNICAL EVALUATIONS, MEASURES OF PROGRESS IN DECENTRALIZING FISCAL RESPONSIBILITY, DETAILED SUB-PROJECT REVIEWS, ETC.. NO SIGNIFICANT PURPOSE APPEARS TO BE SERVED BY SPLITTING THE OBLIGATION INTO TWO PARTS SO LONG AS THE PP INCORPORATES EFFECTIVE CONTROLS OVER SEQUENTIAL SUB-PROJECT COMMITMENTS. EAIG

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